

IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF NORTH CAROLINA  
EASTERN DISTRICT

CIVIL ACTION FILE NO. 4:16-CV-00289

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HARRY L. SMITH, JR.,            )  
  )  
                  Plaintiff            )  
  )  
v.                                    )  
  )  
FLANDERS HOLDINGS, LLC,        )  
  )  
                  Defendant.        )

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DEPOSITION OF HARRY L. SMITH, JR.

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JUNE 2, 2017 @ 9:04 a.m.

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HELD AT  
WARD AND SMITH, P.A.  
1001 COLLEGE COURT  
NEW BERN, NORTH CAROLINA

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S T I P U L A T I O N S

PRIOR TO EXAMINATION OF THE WITNESS,  
COUNSEL FOR THE PARTIES STIPULATED  
AND AGREED AS FOLLOWS:

1. SAID DEPOSITION SHALL BE TAKEN PURSUANT TO  
N.C. RULES FOR CIVIL PROCEDURE;

2. ANY OBJECTIONS OF ANY PARTY HERETO AS TO  
NOTICE OF THE TAKING OF SAID DEPOSITION, OR AS TO  
THE TIME AND PLACE THEREOF, OR AS TO THE COMPETENCY  
OF THE PERSON BEFORE WHOM THE SAME SHALL BE TAKEN,  
ARE HEREBY WAIVED;

3. OBJECTIONS TO QUESTIONS AND MOTIONS TO  
STRIKE ANSWERS NEED NOT BE MADE DURING THE TAKING OF  
THIS DEPOSITION; BUT MAY BE MADE FOR THE FIRST TIME  
DURING THE PROGRESS OF THE TRIAL OF THIS CASE, OR  
ANY PRETRIAL HEARING HELD BEFORE THE JUDGE FOR THE  
PURPOSE OF RULING THEREON, OR AT ANY OTHER HEARING  
OF SAID CASE AT WHICH SAID DEPOSITION MIGHT BE USED;  
EXCEPT AN OBJECTION AS TO THE FORM OF A QUESTION  
MUST BE MADE AT THE TIME SUCH QUESTION IS ASKED OR  
OBJECTION IS WAIVED AS TO THE FORM OF THE QUESTION;

4. THAT THE SIGNATURE OF THE WITNESS TO THE  
TRANSCRIPT OF HIS TESTIMONY **IS NOT WAIVED.**

Harry Smith

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1                   P R O C E E D I N G S 9:04 a.m.

2                   (WHEREUPON,

3                   HARRY L. SMITH, JR.

4           WAS CALLED AS A WITNESS, DULY SWORN AND TESTIFIED AS  
5           FOLLOWS:)

6                   D I R E C T     E X A M I N A T I O N

7                   BY MR. GRAY:

8           Q     Please state your full name for the  
9           record.

10          A     Harry Leo Smith, Jr.

11          Q     Mr. Smith, I know that you were at Phil  
12          Whitaker's deposition a couple of weeks ago, so  
13          you're obviously familiar with the deposition  
14          process.

15          A     Uh-huh.

16          Q     Is that correct?

17          A     Yes, sir.

18          Q     And have you ever had your deposition  
19          taken?

20          A     Yes, sir.

21          Q     How many times?

22          A     Two to three times.

23          Q     And you obviously then have been involved  
24          in litigation?

25          A     Mostly mediations.

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1           Q     But you've been sworn under oath to tell  
2     the truth?

3           A     Correct.

4           Q     Okay. And so you understand that this  
5     process today is a deposition in which you're sworn  
6     under oath to tell the truth and that I will ask you  
7     questions, and you will do the best of your ability  
8     to answer those questions honestly and fully?

9           A     Yes, sir.

10          Q     And as the court reporter here is taking  
11     down everything that's said in the room, it will be  
12     very helpful to her if you will answer questions  
13     that are posed to you as a yes-no type question, as  
14     either yes or no, as opposed to uh-huh or uh-uh or  
15     nodding or shaking your head. Do you understand  
16     that?

17          A     Yes, sir.

18          Q     If at any time you need to take a break,  
19     either to use the restroom or get -- get something  
20     else to drink or have a discussion with your  
21     attorney, will you just let me know that?

22          A     Yes, sir.

23          Q     And the only thing that I would ask is  
24     that if a question is pending you answer the  
25     question first before we take a break.

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1 A Yes, sir.

2 Q Is there any reason that you could not  
3 understand questions that I may ask?

4 A No, sir.

5 Q Okay. And if for some reason you do not  
6 understand a question or are confused, will you ask  
7 me to repeat that?

8 A Yes, sir.

9 Q Are you on any medication today?

10 A No, sir.

11 Q Is there any other reason that you might  
12 not be able to understand my questions or to answer  
13 truthfully?

14 A No, sir.

15 Q What have you done to prepare for the  
16 deposition today?

17 A I had a phone call with my attorney, and  
18 I'm obviously familiar with the material.

19 Q Other than speaking your attorney, did you  
20 speak with anybody else about this deposition?

21 A No, sir.

22 Q What documents did you review in  
23 preparation for this deposition?

24 A Well, I've reviewed obviously the non-  
25 competes, the buy-out agreements, just from a

Harry Smith

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1 refreshing standpoint. And I did not review all the  
2 e-mails. Once I opened them up, you know, several  
3 of those e-mails were not mine and I'm swearing on  
4 that in the testimony. And I refused to get past  
5 that based on some of the -- what I opened up  
6 originally. So, you know, everything else I  
7 reviewed in detail.

8 Q When you say, "everything else"?

9 A The non-competes, the buy-out agreements,  
10 the written material that's gone back and forth  
11 between the parties.

12 Q Okay. And then you said some of the e-  
13 mails are not yours?

14 A Yeah. The e-mails I opened up that had  
15 the pornographic material, you know, I attested that  
16 I'd never seen. I've had e-mails of that caliber  
17 sent to me over my career, obviously, but I've never  
18 seen those e-mails. And so I stopped at that point  
19 and didn't open up anything else. I would remember  
20 those e-mails. But when I opened up those originals  
21 e-mails, I knew they were not mine and I stopped and  
22 advised my attorney accordingly.

23 Q And we can talk about those later. Let's  
24 get into just some preliminary information. What's  
25 your date of birth?

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1           A     February 24th, 1970.

2           Q     What's your home address?

3           A     681 VOA Cite C Road, Greenville, North  
4     Carolina 27834.

5           Q     How long have you lived at that address?

6           A     Approximately 14 years.

7           Q     And who lives at that address with you?

8           A     My wife, my son -- and my daughter's at  
9     Wake Forest but lives there in the summer.

10          Q     And you mentioned your wife. How long  
11     have you been married?

12          A     That's a great question. I should answer  
13     that quickly, right? I got married in 1994, so  
14     whatever the numerics on that are.

15          Q     And you've only been married once --

16          A     That's right.

17          Q     -- to your current wife?

18          A     Correct.

19          Q     As far as your education goes, did you  
20     graduate from high school in about 1988?

21          A     Yes, sir. About that.

22          Q     Where did you graduate from?

23          A     Clayton High School.

24          Q     And then you went to college?

25          A     Yes, sir.

Harry Smith

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1 Q And where did you go?

2 A East Carolina University.

3 Q When did you graduate from East Carolina  
4 University?

5 A 1992.

6 Q What was your degree in?

7 A B.S., B.A., business administration.

8 Q Did you do any postgraduate work?

9 A No, sir.

10 Q Have you had any certifications or  
11 training courses that you've undergone?

12 A Not in any specificity, no.

13 Q After you graduated from East Carolina  
14 with a business degree, where did you go to work?

15 A I went into distribution and then -- I  
16 don't recall the exact years. I spent about four  
17 years in distribution.

18 Q What company?

19 A Cameron and Barkley.

20 Q Cameron and Barkley?

21 A Yeah.

22 Q Where is that located?

23 A They were located in Charleston. They had  
24 a branch in Greenville. And then they sold out  
25 probably three or four different times through those

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1 years.

2 Q So that was your first place of  
3 employment, and you were there for about four years?

4 A My very first place of employment was a --  
5 was a company called Industrial Construction, which  
6 was also distribution of products. And I was there  
7 probably three years. I got recruited to go to  
8 Cameron and Barkley and was there approximately  
9 three or four years. And then I went in business,  
10 you know, really, for myself.

11 Q All right. Let me -- let me just go back.  
12 With Industrial, the three years you were there,  
13 what were you doing?

14 A Sales.

15 Q Sales of what?

16 A MRO supplies, maintenance, repair,  
17 operational supplies.

18 Q And Cameron and Barkley, what were you  
19 doing there?

20 A I was a branch Manager, so I ran the  
21 branch and performed sales functions as well.

22 Q And what were you selling?

23 A Same thing, yeah.

24 Q Maintenance type supplies?

25 A Uh-huh. Yes, sir.

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1 MR. GRAY: And let's go off the record  
2 just real quick.

3 (Off the record from 9:10 a.m. until 9:11 a.m.)

4 BY MR. GRAY:

5 Q After Cameron and Barkley, you said you  
6 went into business for yourself?

7 A Right. I had -- had my own company, doing  
8 sales and marketing. And that's -- I was also  
9 sending to and representing Flanders. So that's  
10 where my friendship started with Flanders.

11 Q Okay. Well, let's -- let's back up just a  
12 hair. So you graduated in '92, and you worked for  
13 Industrial and Cameron and Barkley for a combined  
14 total of about seven to eight years?

15 A Six, seven years, something like that,  
16 yeah.

17 Q So we're getting close to the end of the  
18 century?

19 A Yes, sir.

20 Q And at that point you -- you went in to  
21 work for yourself. You went to work for yourself?

22 A Yes, sir.

23 Q And explain exactly what you were doing?

24 A Doing the exact same thing, Ken, but doing  
25 it on my own. So, you know, I wanted to, you know,

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1 work for myself. So I started a company. I started  
2 developing manufacturing relationships where I  
3 represented those companies in a sales and -- sales  
4 function, selling their products. And I had been  
5 doing business -- one of my larger accounts,  
6 actually, was Flanders with Industrial Construction  
7 and Cameron and Barkley. So -- and that is how --  
8 well, that was one of my lines. I sold air  
9 filtration products for Flanders.

10 Q Okay. I want to --

11 A Not as an employee.

12 Q Right. I want to take it step by step  
13 here. When you were with Industrial and Cameron and  
14 Barkley, explain your relationship with Flanders.

15 A Strictly a supplier. So I mean I'd call  
16 on those guys and sold them supplies.

17 Q And you were selling them maintenance type  
18 supplies?

19 A Maintenance and OEM type products.

20 Q What -- what is that?

21 A OEM product would be a product that went  
22 into their finished goods. So you may -- you may  
23 sell them, you know, electrical wire and conduit for  
24 repair in a plant, which we represented. You may  
25 sell them a gear or a gear box that went into a

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1 finished product. So it would be both products.

2 Q You were selling them products that would  
3 go into their equipment?

4 A Uh-huh. Yes, sir.

5 Q Were you -- were you selling them any  
6 products that would go into the actual air  
7 filtration product that they sold to their  
8 customers?

9 A Yes. So you would have what we call high  
10 purity products, which would be our metal-type  
11 products. So we might sell a gear box that went --  
12 that was a permanent mount on that product. But it  
13 was just a piece of that product. And then, you  
14 know, they have the throw away, which is more your  
15 retail products. I didn't sell anything there --  
16 that went into the final product.

17 Q How long were you self-employed?

18 A Approximately three years or so.

19 Q During that time were you doing the same  
20 type of -- did you have the same type of  
21 relationship with Flanders?

22 A I did. But the exception then was I also  
23 was representing them. So I -- I got their line and  
24 was selling Flanders' products as well. So I had  
25 the Flanders' that I was selling. So, you know, I

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1       also was -- and when you represent, you have  
2       different manufacturers you represent, you know, as  
3       either a manufacturer's rep or distributor. And I  
4       was able to get the Flanders' products to sell to  
5       end users.

6               And I developed that relationship with  
7       Pitt Memorial Hospital before it was Vidant. So at  
8       that time Robert Amerson, who was the former CEO and  
9       Chairman, caught me in the hallway one day and said,  
10      Hey, is there anyway you can help us get the Pitt  
11      Memorial Hospital business? Now, at this time  
12      Flanders is not a large corporation, Ken.

13             And I said, I'd love to -- obviously,  
14      right? You know, because I knew it was an  
15      opportunity. And I was able to secure that piece of  
16      business fairly quickly for Flanders Corporation.  
17      You know, Pitt, now Vidant, uses a tremendous amount  
18      of filtration, up to and including HEPA filtration.  
19      So there's a large range of filtration, right. And  
20      so they would use the whole gamut. And that is how  
21      the relationship started. I secured that piece of  
22      business, and subsequently I was allowed to  
23      represent their products going forward.

24             Q       So during this three-year period in which  
25      you were self-employed you were selling products to

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1 Flanders --

2 A Uh-huh. Yes, sir.

3 Q -- for both their machinery and for their  
4 end product?

5 A Uh-huh. Yes, sir.

6 Q And you were also taking the end product  
7 and selling it or distributing it to customers?

8 A Yes, sir.

9 Q Did you have an independent contractor  
10 relationship with Flanders at that time?

11 A I don't recall. I don't think I had a  
12 contract. I think I just had, you know, a verbal  
13 agreement that I could represent and sell in a given  
14 geographic territory. And back then the company  
15 wasn't very complex -- I don't recall if I had a  
16 specific contract, but I do not think I did.

17 Q And during this period of time when you  
18 were self-employed, you were working with other  
19 companies as well?

20 A Yes, sir.

21 Q In terms of selling them products,  
22 maintenance type products?

23 A Yeah. I was calling on a multitude of  
24 companies -- yes, sir.

25 Q Were you also selling those other

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1 companies' products to customers?

2 A Yes, sir.

3 Q So what happened to change the  
4 relationship between you becoming self-employed and  
5 some -- you know, tell me the next step.

6 A Robert sat me down one day -- and you  
7 know, I was doing fairly well -- and said, I would  
8 like for you to come to work for me.

9 Q All right. Robert who?

10 A Robert Amerson was the CEO and Chairman of  
11 Flanders. No, I'm sorry. He was the Chairman, not  
12 the CEO. Steve Clark was the CEO. And Robert and I  
13 threw it back and forth, and I said, you know, let  
14 me think on it. And, you know, he made some  
15 appealing -- you know, because I was still young and  
16 up and coming, right? And he made some appealing  
17 comments to me about leadership in the company,  
18 opportunities. And subsequently, you know, he and I  
19 came to an agreement that I would actually come to  
20 work for the company. So at that time I became an  
21 employee of Flanders Corporation.

22 Q Do you recall the date?

23 A No, sir.

24 Q Just ballpark?

25 A I really have no idea. I mean I'd love to

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1 give you better dates, but it just ran altogether.  
2 But I mean I was CEO from -- you can back into it  
3 from there. I was CEO from -- call it May of 2007  
4 through '14, I think, 2014. Approximately the same  
5 time, Ken, it would be the May time frame period or  
6 pretty close. And then prior to that, in a sequence  
7 of events, you know, I was Chief Operating Officer  
8 of the company. I was --

9 Q When were you COO?

10 A Approximately a year before I was CEO.

11 Q For just a one-year period?

12 A Approximately.

13 Q So we'll say from about May of 2006 till  
14 about May of 2007?

15 A Yes, sir, approximately.

16 Q Okay. Prior to that point in 2006, when  
17 you became the COO, what was your position?

18 A I held a number of different positions,  
19 from sales to managing direct sales offices, to  
20 operations in high purity. So it was just a series  
21 of different positions. I moved into the company --  
22 and I basically moved into the company where, you  
23 know, we seem to have, you know, financial  
24 constraints or financial challenges. And I was  
25 moved in those areas accordingly.

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1           Q     Well, okay, but I want to back down. We  
2     started with CEO. Then you -- before that you were  
3     COO.

4           A     Uh-huh.

5           Q     What were you before you were --  
6     immediately before you were COO?

7           A     Before that I was in charge of high purity  
8     operations, high purity sales, and then all  
9     commercial sales, except retail.

10          Q     About how long were you in that position?

11          A     I don't recall the exact time frame and  
12     range. But, you know, I would say a couple years,  
13     you know.

14          Q     So that would put it around the 2004 time  
15     period -- from about 2004 to 2006?

16          A     Approximately, yeah.

17          Q     Do you recall the position you were in  
18     prior to being in charge of the high purity  
19     operations?

20          A     I do. But my original position, Ken, that  
21     they brought me into is that I managed the direct  
22     office. So Flanders had approximately, probably ten  
23     direct offices around the country. And these are  
24     actually distributors that we owned. So we had --  
25     the model at that time was, you know, we had direct

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1 sales and distribution of sales. So Steve Clark,  
2 the CEO, was -- we had direct sales offices, which  
3 we owned, which would be 5, 10, 15, 20,000 square  
4 feet and a sales force that went out and sold  
5 filters. But they were on our payroll. We owned  
6 the inventory.

7 And so I ran -- the first thing they did  
8 was put me in charge of those direct sales offices.  
9 And the assignment was given to me because they were  
10 financially challenged. You know, they were having  
11 trouble getting them going. And -- but that is the  
12 first assignment I got with the company.

13 Q Do you recall approximately how long you  
14 were in that position?

15 A I don't. I'd say 18 months to two years,  
16 something like that.

17 Q Is it fair to say you started with  
18 Flanders somewhere around 2002?

19 A Approximately. That's probably fair. I  
20 don't recall exactly, but I think you're pretty  
21 close.

22 Q And to the best of your recollection, you  
23 had four different types?

24 A That's probably -- probably fair.

25 Q The Manager of Direct Offices?

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1           A     Uh-huh.

2           Q     Director of high purity operations, COO  
3     and CEO?

4           A     Yes, sir. I ran everything at some point  
5     in time except retail. I never had retail until I  
6     became COO. Then I had retail control as well.

7           Q     So within those four different roles that  
8     you performed you, at one point or the other,  
9     oversaw every facet of Flanders' business?

10          A     Yes, sir.

11          Q     Mr. Smith, I want to take you to the point  
12     of right before you started with Flanders. And you  
13     had a relationship for a number of years, it appears  
14     a decade relationship as -- you know, working in  
15     some type of contractual relationship in terms of  
16     providing them with maintenance type materials, and  
17     then subsequently in addition to doing that, you  
18     were also selling product for Flanders?

19          A     Uh-huh. Yes, sir.

20          Q     What was your perception of Flanders?

21          A     Not a very well run company. You know,  
22     when I looked at it, I did see a lot of opportunity.  
23     I didn't know much about the air filtration space,  
24     but I called on a lot of different people. So, you  
25     know, I would call all the billion dollar

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1 pharmaceutical companies, obviously a lot of  
2 infrastructure very well ran. And I would call  
3 small companies, from Hackney and Sons in  
4 Washington, that I would probably assimilate along  
5 the same lines I would in Flanders at the time,  
6 right, which is, you know, undercapitalized, slow  
7 pay -- because I got paid slowly. So, you know, I  
8 was not -- I never got up in the morning time  
9 saying, gee whiz, golly, this is the next best thing  
10 since sliced bread. So I didn't have a high  
11 perception of the company. I didn't have a low  
12 perception of the company. And I also probably  
13 wasn't mature enough at that time, Ken, to  
14 understand the dynamics of the capitalization and  
15 finance like I do now.

16 So -- but I don't recall having some --  
17 you know a great perception of it. I mean my  
18 perception at that time, based on use and  
19 experience, was, you know, when I went into a big  
20 pharmaceutical company, it enamored me. And then  
21 when I went to Little Washington, not so much.

22 Q And Little Washington is where Flanders is  
23 based?

24 A Was headquartered at that time, yes, sir.

25 Q Did you call on any other air filtration

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1 companies prior to going to work for Flanders?

2 A I attempted to. I tried to do business  
3 with Purolater, as I recall. I don't recall anybody  
4 else that I tried to -- I was really kind of  
5 geographically -- you know, Eastern North Carolina.  
6 I had some products that I thought that I could have  
7 sold in other markets, but I was not successful in  
8 doing it.

9 Q Were you aware of Flanders' competitors at  
10 the time, before you went to work for Flanders?

11 A I was aware of a few, but had no idea of  
12 the range of competitors. So I would tell you my  
13 knowledge was limited as to the breadth and depth of  
14 who could do what in the space.

15 Q Once you began your employment with  
16 Flanders, did that knowledge base change?

17 A Dramatically.

18 Q How so?

19 A Well, you know, I think ingrained myself  
20 in the business, you know, based on what, you know,  
21 I was perceived and was told as an economic  
22 opportunity for me. And I quickly learned, you  
23 know, the landscape, you know, and it's  
24 multifaceted. So, you know, you have retail, which  
25 is obviously big box stores. You have what we call

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1 ARW, which is air conditioner, refrigeration and  
2 wholesale, which would be like your Johnstone  
3 Supplies, C.C. Dixons, which would be a local  
4 distributor to sell fans, belts, freon, air filters.  
5 So the mechanical contractors you would call here  
6 today, he would go by there and pick up a can of  
7 freon, he'd get a case of filters. So that's a  
8 space. And then we have the filter sales and  
9 service space, which would be Ken Gray owns Ken Gray  
10 Filters Sales and Service. You have the warehouse,  
11 two trucks. And you call on hospitals,  
12 pharmaceuticals and plants locally. And you would  
13 buy our products and sell our products. So that's  
14 the third space.

15 And, you know, we had the high purity  
16 space, which is HEPA filtration, clean room  
17 filtration and nuclear filtration. And then, you  
18 know, we had a complete service division, which was  
19 rooftop change outs, mostly big box stores, so forth  
20 and so on. And we also had a paint booth division.  
21 So the paint booth division would sell paint booth  
22 and roll type products to, you know, automobile  
23 dealerships and so forth.

24 And so, you know, what I learned quickly  
25 was it was a pretty complex model. And so I really

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1 ingrained myself into learning, who, what, when  
2 where and how from a competitive landscape. So I  
3 would say, yeah, I got up to speed really, really  
4 quickly on -- on all the divisions.

5 Q Okay. Let me go through --

6 A And I'm sorry, retail as well.

7 Q Yeah. Retail, explain that. And  
8 basically explain what Flanders does.

9 A Sure. Yeah. So Flanders Corporation, you  
10 know, is a multi-faceted air filtration company.  
11 What I got at Flanders Corporation is an evolution  
12 of the model. So when I got to Flanders Corporation  
13 it was in financial challenge. It's public record  
14 was a NASDAQ traded company. So what my thesis when  
15 they offered me -- took the job, was that we had a  
16 model problem. Because, you know, we had the direct  
17 offices I was telling you about, and then, you know,  
18 we also sold to Ken Gray Filter Sales and Service.

19 So you would actually go and compete with  
20 our direct offices every day. So we'd have sales  
21 guys on our payroll competing with you selling our  
22 products. And the same thing in the retail space.  
23 Instead of you going to Lowe's, you could just go to  
24 one of our direct offices and buy our filters. So,  
25 you know, what I said is we had a confused strategy.

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1 And what we had at that time was a CEO that was  
2 buying (indiscernible.) So I mean, he was losing  
3 market share in the normalized market because people  
4 didn't trust us as a partner, because we were  
5 competing with him. So he was going out and buying  
6 Ken Gray's Air Filter Service.

7 So, you know, you say, hey, I'll sell it.  
8 I do 8 million in sales. And then, you know, we buy  
9 it and it looks like you've got \$8 million in  
10 revenue growth. And so, you know, we had a very  
11 challenged balance sheet. We had a loss in customer  
12 base and we had poor service because, you know, we  
13 had financial challenges, raw material flows, so  
14 forth and so on.

15 So when I got in the company, you know, I  
16 said, I'm going to take it here. So where I took it  
17 to was strictly in the direction -- so I spun off  
18 all the direct offices, sold them all off to Ken  
19 Gray. So, you know, I said, Ken, would you like to  
20 have two more offices? And I worked with our  
21 existing filter sales and service space to -- to buy  
22 those branches and incorporate the trust that we  
23 weren't going to compete with you.

24 And then we put the -- we spun off the  
25 complete service division, which was the rooftops,

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1     you know, because we were competing as well there.  
2     So we got out of that space. We got out of the  
3     paint booth space because it just wasn't a core  
4     space, it was a cash burner. We had a competing  
5     high purity plant in Salt Lake City, Utah, which is  
6     where the former CEO lived. So we had a competing  
7     plant to the high purity plant in Washington. So  
8     they actually had a sales force in Salt Lake City.

9             We had a sales force in Washington.  
10     Didn't work out so good. We competed for price. So  
11     you could call Salt Lake City and get a price for a  
12     HEPA filter and you could call Washington for a  
13     price for a HEPA filter. And so I shut that plant  
14     down. And we had a detached corporate office, which  
15     doesn't work for a company in this space. So the  
16     detached corporate office was in Florida, which the  
17     ex-CEO had a place in as well. And I closed it down  
18     and I moved the corporate office to Washington,  
19     North Carolina.

20             Two fronts there, one, job creation in  
21     North Carolina, which was near and dear to me.  
22     Didn't try to hide that. And, two, I wanted to be  
23     with my family. I didn't want to be in Florida.  
24     And so, you know, we took a detached office, the  
25     detached corporate office and moved it to

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1 Washington, North Carolina, which would be customer  
2 service, accounting, IT and all those platforms.

3 In that process, the world said you can't  
4 hire enough help in Washington, North Carolina. We  
5 had all the help we wanted, great folks, and it  
6 worked really, really well. That was when the  
7 company started turning. We took a tremendous  
8 amount of overhead out and then, you know, we really  
9 started driving service through efficiency and  
10 trust.

11 The retail space is a very difficult. In  
12 and to itself, it's a tough space. You know, you're  
13 calling on Wal-Mart, Lowe's and Home Depot. And  
14 it's really a two-edged sword, you know. I can also  
15 tell you, if I go back into this, I don't know that  
16 I'm going into that space. I still have a lot of  
17 friends there, but why did I have a lot of friends?  
18 I couldn't run a company without them.

19 So, you know, we were approximately --  
20 these are rough numbers. I think when I got it, we  
21 were probably 160, 165 million, you know. When I  
22 exited we were 325, something like that.

23 Q All right. Give me those numbers again.

24 A When I got it, I'd say we were --

25 Q And let me ask you -- let me just stop you

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1       there.

2           A       Yeah.

3           Q       When you say, "when I got it." Are you  
4       talking about --

5           A       CEO. When I got control of the company  
6       and could put the company in the position that I  
7       wanted to, right? And, really, I had a carte  
8       blanche opportunity, because the company was in  
9       trouble. So, you know, the Board basically said,  
10      help. And so, you know, I was able to enact my plan  
11      without -- without a lot of -- I won't tell you it  
12      was zero respect.

13                 Now, as a part of the process, when I  
14      became CEO, you know, myself and Robert Amerson  
15      bought the ex-CEO out. So we went to him and we  
16      bought his stock out. It was a \$7 million  
17      transaction. I bought \$3.5 million. He bought \$3.5  
18      million.

19           Q       "He" being Robert Amerson?

20           A       Robert Amerson, correct. This was the  
21      time when you could go to the bank and borrow money  
22      you shouldn't borrow. And so I collateralized my  
23      whole \$3.5 million with the stock. So I would say  
24      that I was all in. And then subsequently, you know,  
25      as we got into the company, I realized the balance

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1 sheet had a lot of problems.

2 Q And let me go back though.

3 A Sure.

4 Q I just wanted to make sure I got those  
5 numbers right. You said when you took over as CEO  
6 the company was worth?

7 A I think the company revenue-wise -- I'm  
8 pretty close to this -- was about 165 million. When  
9 I exited, we were on a 325 run rate, 325 million.

10 Q So you doubled it?

11 A Approximately. Uh-huh, approximately.  
12 And I spun off a lot of sales. So I mean if you  
13 took the direct offices -- I don't remember the  
14 number. But you got direct offices going to do 1.5,  
15 3 or 4 million. So I mean I spun off probably \$25  
16 million worth of sales that we -- we got rid of. We  
17 lost money on every office. So it wasn't a cash  
18 hit, but we dropped the revenues, you know. And  
19 so -- but I was in a position we were burning cash.  
20 I had to stop the cash burning, right.

21 So what I really did from the initial  
22 start was -- my whole game plan day one was to get  
23 the company to break even, you know, we were burning  
24 cash. So I started spinning stuff off. And also,  
25 by the way, I didn't think it would fit and I also

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1        didn't think that the model would work. But, by the  
2        way, I can't tell you that I had the expertise in  
3        the space that I do now. Some of that was really  
4        educated guesses, because I knew we had to do  
5        something, right?

6                I knew the direct offices were a problem,  
7        because we had constant complaints from our customer  
8        base and customers leaving because we were competing  
9        with him. That makes sense, right? And so, you  
10       know, I put the company through a series of moves,  
11       and I would tell you the right-sized of the  
12       organization, you know, closed the detached office,  
13       closed Salt Lake City, spun off distribution  
14       offices, got rid of the complete service division,  
15       got out of the paint booth division, tried to re-  
16       introduce the company and -- to the customer base.  
17       And so I was heavily engaged with -- too engaged  
18       with customers, vendors and employees.

19               But, you know, you're also -- you know, I  
20       was all in, right. So if the company fails, I mean  
21       I didn't have that kind of capital at that point,  
22       right. You know, I had borrowed money -- risk and  
23       reward at a young age. I still haven't paid for it.  
24       I risk mitigate at this point. But, you know, as I  
25       got more into it, I can tell you at this point in my

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1 life I wouldn't have done it. Because I know a lot  
2 more about balance sheets, income statements -- and  
3 I didn't know that back then.

4 I didn't have that skill set. I had a  
5 tremendous amount of energy. I was a pretty smart  
6 guy. And I had learned the space pretty good. And  
7 you also had a Board of Directors that probably  
8 couldn't have went out and recruited a real world  
9 CEO at that time. I can't tell you at that time  
10 that I should have got the company, because I  
11 honestly do not think I should have. I don't think  
12 I was prepared to be a NASDAQ CEO at 35 with a  
13 company with challenges. I mean I had never done an  
14 earnings call.

15 So I'd say I got indoctrinated pretty  
16 quick. And it was a lot of -- a lot of trial by  
17 fire, made a lot of mistakes. And we just kept  
18 working through it. And, you know, the great  
19 recession came along the same time and, you know, we  
20 just continued to work through it. But it was a  
21 tough bunch of years. I mean, you know, that's the  
22 reason I sold the company. I mean I was really  
23 done.

24 And, you know, I also got in pretty bad  
25 health during that period of time. So I was work

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1       100 to 120-hour weeks. And at that same period in  
2       the turnaround, I ended up with all the real estate.  
3       So we'll explain how I ended up in the real estate  
4       business. We didn't have any capital. So Bartow  
5       burned to the ground. That was a manufacturing  
6       plant in Florida. Key and critical plant because  
7       Florida's hot and we sell a lot of filters there.  
8       So we had an old plant and had a guy -- a man and  
9       his wife, as I recall, burned the plant down. Air  
10      filters burned. So burned the plant down. I  
11      immediately went back to Bank of America, who was --  
12      we had our ABL, which was asset based lending, you  
13      know. We borrowed money off of receivables and  
14      inventory and balance sheet. And we were leveraged.  
15      I mean every week I was paying, you know, payroll.  
16      I got company with no cash.

17               So I went to the Bank of America and sat  
18      down with Bob Rhodes and Bob Moore, two great guys  
19      who I still think a lot of today. And I said, I  
20      need -- I need to rebuild Bartow. And as I recall,  
21      Bob Rhodes started laughing. He said, here, come  
22      on. What's the next conversation? I said, I've got  
23      to -- I mean I'm done if I can't rebuild this plant.  
24      I had the dirt because I owned the dirt.

25               And the said, we're not going to let

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1       you -- no more debt for this company. We're not  
2       going to get more exposure. We're not going to  
3       allow the company to have anymore exposure. I  
4       didn't understand it then. I understand it now. I  
5       mean it was back -- I was still -- when I was -- I  
6       mean -- so I called Robert. And, you know, Robert  
7       had some net worth, right. And I said, look, I've  
8       got to rebuild this plant. And he said, okay, well,  
9       let's rebuild it.

10               So he and I went to BB&T, back when you  
11       could borrow money you shouldn't be able to borrow.  
12       And he and I bought the land from the company, fair  
13       market appraisal, you know, arm's length  
14       transaction, fully documented and vetted, gave the  
15       company a 1.5, \$2 million injection of cash, which  
16       helped the company. And so you're going to get a  
17       turnaround at the time we turned this thing around  
18       here in a second. And then we borrowed, I think 7  
19       to \$9 million and built the plant ourselves. So we  
20       owned Bartow. That's how the real estate function  
21       started for me.

22               Q       And Flanders, prior to that, had owned  
23       Bartow?

24               A       Correct. So we bought the land, injected  
25       the cash into Flanders, which we needed it, and then

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1 we built the plant.

2 Q And at that time Robert Amerson was --

3 A Chairman of the Board.

4 Q -- still Chairman of the Board?

5 A Correct. So we started there and then,  
6 you know, if we needed a plant, we took it on our  
7 personal balance sheet. So, you know, it goes back  
8 to when you're all in; I was all in. And, you know,  
9 we were still really -- I mean if you go back and  
10 look at the financials -- because I was on NASDAQ  
11 for many years. I mean, you know, we were just  
12 bumping along.

13 Bartow actually was one of our big  
14 turners, because we had two different facilities, a  
15 leased facility, old, very old facility, we rebuilt  
16 this facility. And what happened -- but people also  
17 perceived that we rebirthed. They said, wow, look  
18 at this facility they built. So, you know -- and we  
19 told them that. You know, we built a new state-of-  
20 the-art facility. You know, we're here to stay.  
21 Because the rumors in the industry, rightfully so  
22 for all of our competitors, were these guys are  
23 going under. I mean that was my -- that I dealt  
24 with every day.

25 And it was very challenging in the retail

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1 world, where they're very sophisticated. So, you  
2 know, they're very -- you know, they want a low  
3 price, but they also want to know you're going to be  
4 able to ship them. And so I battled that all the  
5 time. That was one of our turning points. And then  
6 I ended up owning Bartow Oklahoma, a 500,000 square  
7 foot in Oklahoma. And what happened there was we  
8 had two plants in Matamoros, which was maquiladoras  
9 across from Brownsville, Texas. So we had three  
10 maquiladoras.

11 We had Tijuana, which had worked  
12 incredibly well for us. And we -- we had a plant in  
13 Texas. I mean I was winning the lottery. And both  
14 guys convicted. So we ended up with two  
15 maquiladoras in Matamoros, Mexico, with the premise  
16 that Tijuana had worked like a dream. These didn't  
17 work. So we had a distribution center in  
18 Brownsville trying to take advantage of entry level,  
19 you know, labor in Mexico. I had an armed takeover.  
20 I had all kinds of issues in Matamoros. It was when  
21 the drug stuff blew up in Brownsville, if you  
22 remember that.

23 We couldn't get employees, a lot of  
24 shootings. We wouldn't even go over there. So we  
25 actually moved our assets out 2:00 o'clock in the

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1 morning and we bought a 500,000 square foot plant in  
2 Ardmore, Oklahoma. Again, myself and Robert  
3 purchased it. I ended up owning Air Seal in Texas,  
4 which was a division where we made air handlers. We  
5 exited that division, and I sold that facility early  
6 on. I ended up owning Hudson, New York. So, you  
7 know, we had to have a distribution point in New  
8 York. So I bought that facility. And in that  
9 facility --

10 Q And when you say you bought it --

11 A Yeah, I bought it.

12 Q Now, did you personally?

13 A Uh-huh, yeah. Yeah, me personally. And  
14 on that facility, I allowed my management team to  
15 participate. I had five or six guys on my  
16 management team that I gave a portion of that  
17 facility to. And so, you know, I was -- I was in to  
18 the extreme. Now, every time we would do this, we  
19 would go to the bank and say, you know -- we still  
20 hadn't got to the point that I think everybody felt  
21 comfortable.

22 And as we got the facilities going, we  
23 really battled it, fought it, and we had a lot of  
24 help on the vendor base. And, you know, the company  
25 started turning. And we started making some money

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1 and started getting credibility. You know, one of  
2 our big turns was, you know, I personally landed the  
3 Lowe's contract. And it was a big turning point for  
4 us because it was faith -- that one of the big box  
5 stores had faith in Flanders Corporation. And, you  
6 know, we got a \$37 million increase overnight. So  
7 through put efficiency in that business, right?

8 So we landed the Lowe's account and that  
9 was a big turning point for us. You know, revenue  
10 jumped. You know, we had a movement in EBITDA. And  
11 the company really started stabilizing. The balance  
12 sheet was stretched the entire time I had it, but  
13 not as bad. You know, you could manage the company  
14 without coming in on Friday trying to figure out if  
15 you were going to cover \$2 million in payroll  
16 checks. And I did that for I don't know how many  
17 years, every Friday, you know.

18 So I mean it was pretty stressful, as you  
19 can imagine. We were able to get that account and  
20 get it going. And at that point I had a  
21 conversation with the Board about taking the company  
22 private, no me, specifically. We had no business  
23 being in NASDAQ. I mean, we just -- it was one of  
24 those things where, you know, they went and raised  
25 capital with a great, big famous story. This

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1 industry never returned those kinds of numbers, and  
2 never will, the bear interest too low in the space.

3 And so I said, look, we need to get --  
4 move the pink sheets and we need to sell the  
5 company. I want out. I mean I was very up front  
6 with the Board about that, that I wanted out.

7 Q About what time are we talking about?

8 A I think it was about two years before I  
9 sold it to Insight. So, you know, it took a period  
10 of time for me to move out. And, you know, I talked  
11 to my -- my wife about it, my family about it. And  
12 we had made that decision. And I had also said if  
13 we don't do that, then it's probably time for me to  
14 exit then. And so the Board agreed and we went --  
15 we started the process.

16 And we went from NASDAQ to pink sheets,  
17 which is an intermediary. And, again, I learned a  
18 lot. I mean I tell everybody I got a Ph.D. at a  
19 young age. And so we went to pink sheets, never got  
20 sued, total transparency. When I went to pink  
21 sheets, you don't have to do Qs and Ks. I still did  
22 it for everybody, because I wanted to be completely  
23 transparent. And so we never got sued, and I  
24 communicated with all the investors, spent a lot of  
25 time in New York explaining where we were going, how

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1 I was going to get everybody out, try to make  
2 everybody whole.

3 And then we really had some pretty good  
4 numbers on the Board. You know, I think we were  
5 20 -- we pro formaed about 23 million EBITDA, which  
6 was a nice turnaround. I think when I got it it was  
7 negative 10 or 12 in cash. So we went from negative  
8 10 or 12 million EBITDA to positive 23.

9 Q Okay. You need to spell that acronym --

10 A Sure. EBITDA --

11 Q -- for the court reporter.

12 A Yes. EBITDA is earnings before income,  
13 tax, depreciation and amortization.

14 Q And give her the initials.

15 A EBITDA. So we went from -- when I got it,  
16 it would be negative, significantly negative EBITDA  
17 to positive EBITDA for that space. And my  
18 recommendation to the Board was it was time to exit.  
19 And why did I say that? We had a significant  
20 portion of retail. Retail's going to force you down  
21 every single year. So, you know, you don't go into  
22 Home Depot, Lowe's and Wal-Mart to get a price  
23 increase. There are other people in the space.  
24 It's a big number. People want it. They're  
25 enamored with it.

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1                   And so every year, you know, if you're  
2           doing -- we were doing 80 million or 90 million in  
3           retail at that time, you know, they wanted 1-1/2, 2-  
4           1/2, 3 points every year. So we had to figure out  
5           how to take it out, either raw materials feed --  
6           it's just tremendous pressure because every year  
7           you're trying to figure out how to do it quicker.  
8           And the fact is that if you lose that piece of  
9           business the whole model changes. So you've got all  
10          these plants that you built for a certain amount of  
11          volume. So the old acronym is, when they got you,  
12          they got you. So, you know, we had to figure it  
13          out. And at the same time, I had everything on the  
14          line. So it's very, very, very stressful.

15               Q     Okay. I want to go back and unpack a few  
16          of the things.

17               A     Sure.

18               Q     Just to be clear to people that are not  
19          familiar with Flanders, and we're talking about air  
20          filtration. What you're talking about as far as  
21          from a retail standpoint are the filters that go in  
22          somebody's house --

23               A     Yes, sir.

24               Q     -- you know, for the HVAC system?

25               A     Correct. Yes, sir.

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1           Q     And then you also have commercial sales in  
2     which you're producing bigger air filtration  
3     systems?

4           A     Yes, sir.

5           Q     Some comparable to what you do on the  
6     retail side as far as their heating and air system;  
7     is that correct?

8           A     Yes, sir.

9           Q     But you also do the high purity, which is  
10    an area in which you're trying to have a very pure  
11    environment?

12          A     Yes, sir.

13          Q     Such as dealing with computer chips?

14          A     Yes, sir, the cleaner -- yes, high purity  
15    is -- is a multi-faceted business too. It was  
16    approximately a \$50 million piece of business out of  
17    Washington, North Carolina. And you do clean rooms.  
18    It will be Intel and Motorola. Then we had a 1,000  
19    clean room, very, very efficient, did very well. We  
20    also did nuclear filtration.

21          Q     What is that?

22          A     So nuclear filtration is like Westinghouse  
23    Nuclear, where we actually, you know, had nuclear  
24    certified -- because they've got to go through a  
25    rigorous testing process -- nuclear certified HEPA

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1       filtration. And there was only a few people in the  
2       country that -- that were nuclear certified. We  
3       were one of them. And the same process, you know,  
4       we may containment houses, which would be where the  
5       filters went in at. So these would be massive metal  
6       containment houses, which were called bag in, bag  
7       outs. And we were very successful in that product.  
8       It was basically a product, Ken, where you would  
9       take the HEPA filtration into a big, massive bank of  
10      stainless houses. Very caustic air would go into  
11      them. These filter banks would clean them. Now  
12      when you took the filter out, it went into a bag.  
13      So there's a seal there. The bag goes on it. The  
14      filter comes out and drops in the bag. You cinch  
15      the bag. Nothing ever comes out. And that's the  
16      kind of caustic environment that we dealt with  
17      there. And it had significant margins in it.

18               One of the advantages we had there is we  
19      had very little overhead, right? So we competed  
20      with people that had -- in my opinion had  
21      superfluous overhead structure. We had a pretty  
22      lean overhead structure. The disadvantage we had  
23      was lack of capital to invest in the business.  
24      So -- but that business -- and we also did  
25      pharmaceuticals. So, you know -- and hospitals.

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1 So, you know, all your operating rooms had HEPA  
2 filtration in them. So if you're in the OR and you  
3 look up and you see the square grid there, that's  
4 going to be a 99.97 percent HEPA filter, which will  
5 catch everything up to .03 microns. And so, you  
6 know, we did that space too.

7 So, really, Flanders Corporation did  
8 everything from a 99 cent filter that would go in  
9 your house, which we had fiberglass filter you buy  
10 at Wal-Mart, a really great model, up to a multi-  
11 million dollar filter. So, you know, we covered the  
12 entire spread, strictly manufacturing, got out of  
13 distribution and all that and drove manufacturing,  
14 which was development of products, marketing  
15 literature, low cost manufacturing. But we covered  
16 the entire gamut on air filtration.

17 Q And you said there close to the end that  
18 you got out of the distribution portion?

19 A Yes, sir. We -- we-- Steve Clark  
20 developed the model. And it's been one of my  
21 contentions that -- you know, and my offer to help  
22 was genuine. You cannot have a direct model and a  
23 distribution model. So I'm going to explain it to  
24 you, where this is -- so today -- and I can use this  
25 as a real world example. Today American Air has

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1 approximately 65 direct sales people in the center,  
2 right? And they work for American Air. They get up  
3 every day and they go call on hospitals,  
4 pharmaceuticals, manufacturing plants and try to  
5 sell Flanders American Air products. Sixty-five  
6 guys get up every day and go sell direct.

7 Flanders has distributors that get up  
8 every day and go sell those to same customers  
9 against the American Air sales guys. So, you know,  
10 what you got is they're taking the products that you  
11 you would buy, Ken Gray -- Ken Gray Air Filtration,  
12 and you go over to the hospital here and say, Look,  
13 I want to -- they say, Ken, I want to get a price on  
14 50 HEPA filters, Flanders HEPA filters. So you  
15 would give them a price for Ken Gray Air Filtration.

16 (Noise interruption.)

17 So you would say, Mr. Hospital -- say,  
18 Ken, can you give us a price on 20 Flanders HEPA  
19 filters? You say, absolutely. I've got them in the  
20 warehouse. You would give them a price. The  
21 American Air salesperson, who also is on the same  
22 payroll as Flanders' manufacturing people, he goes  
23 and cuts your numbers via exact same filter. He's a  
24 direct guy from the company.

25 That is the model they have today.

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1       They're competing internally. I got an account  
2       called Grainger before I left. I negotiated a  
3       contract myself. It's approximately a \$60 million  
4       contract. Grainger's core business is hospitals.  
5       American Air's core focus is hospitals. So now  
6       Grainger is a \$60 million direct account to Flanders  
7       is competing with American Air's people every day  
8       for the same filters. And it's -- and it's the  
9       approach that I went away from. And, you know, I'm  
10      not 90 percent or 85 percent or 80 percent, I am 100  
11      percent that if they do not change course in that  
12      model, they're going to have catastrophic results.  
13      I think if you would look at the actual performance  
14      of the company today, you would find that I'm  
15      correct.

16               And so I'm not trying to perceive --  
17      they're doing great. That's phenomenal. I'm happy.  
18      I go back home. So they have a direct model and a  
19      distribution model in the same environment, and  
20      they're going to continue to lose significant market  
21      share. Let me further that on two accords.  
22      Grainger and Home Depot are the two largest accounts  
23      that they have, along with ACE. So if you took  
24      Grainger, Home Depot, ACE and Wal-Mart, those four  
25      accounts -- Home Depot's 100. Grainger's 55 or 60.

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1 ACE should be 15 to 20. Wal-Mart's 12.

2 Q And when you're saying these numbers,  
3 they're in the millions?

4 A Revenues. Yes, sir, revenues. So those  
5 four accounts, if you look at the 335 run rate that  
6 I had, they're critical. Now, none of those  
7 accounts lacked a single source, because they don't  
8 want to have all their eggs in one basket. It's  
9 called leverage. So when I went in, they would say,  
10 well, Ken, Kevin will cut your price. We can go  
11 with Kevin. And by the way, he's doing great. Look  
12 at this part of the country; he's doing great. So  
13 that's how they did it.

14 Q Let me make -- let me unpack that.

15 A Sure.

16 Q I think what you're saying is they would  
17 play one rep against another?

18 A Absolutely. No question.

19 Q Okay.

20 A And so at the same time we couldn't afford  
21 to lose the volume. So it's a very strenuous  
22 position. So you're sitting there on one hand, you  
23 need a price increase. On the other hand, if you  
24 lose a \$50 million piece of business, you can't make  
25 the plants work.

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1           Q     And you have mentioned the Grainger  
2     account, and you said that was how much?

3           A     It should be 55 or 60 million.

4           Q     And you also said that you landed the  
5     Lowe's account, 37 million?

6           A     Okay. So to back up on Lowe's, what  
7     happened on Lowe's, I did personally land the Lowe's  
8     account, \$37 million. I also personally negotiated  
9     the Grainger account by myself, along with Charlie  
10    K. but I led the effort there. And I'll tell you  
11    why. At the same time I continued to get a really  
12    good relationship with Home Depot in Atlanta. I  
13    mean they've been a long-term customer. The company  
14    started to turn. And I kept saying, guys, I can  
15    beat 3M. I've got a lower overhead structure. I  
16    don't have a brand name. And I didn't have the time  
17    to develop one.

18                So myself, along with the Home Depot  
19    executives developed Honeywell and Rehm, which is  
20    what they sell now. So Home Depot came to me --  
21    they actually put me on their foundation Board and  
22    said, here. If we give you Honeywell and Rehm,  
23    what's your pricing structure? And I said -- I gave  
24    my pricing structure. And I said, I need to make  
25    this, total transparency. I said, I -- I got to

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1 make this.

2 And I gave them approximately a \$28  
3 million cost reduction from 3M with a name brand,  
4 because of their superfluous overhead structure.  
5 And I was able to negotiate the Home Depot contract  
6 nationwide. So I got -- and so on a further point,  
7 because some of this is really critical that you  
8 need to know. They don't single source. So, you  
9 know, I had to really work the accounts. I was in  
10 Atlanta a lot getting confidence, working with  
11 senior management, you know, talk to Frank Blake,  
12 the CEO and working -- so I said, you can trust me.  
13 I will -- I can do this.

14 And I was able to gain that trust. And  
15 they fired 3M and hired Flanders nationwide with the  
16 Honeywell Rehm ticker. And at the same time, they  
17 negotiated the -- the rates. Now, when we announced  
18 that, I got fired from Lowe's two days later, as we  
19 expected. So, you know, when I went to Depot I  
20 said, look, if I do this, Lowe's is going to fire  
21 me. So I said, I'm doing 37 million with them.  
22 But, by the way, if you guys will do this, I'm good.  
23 Because I actually have a better margin structure  
24 here than I have here.

25 Q And when you say here, you would have had

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1 a better margin structure at Home Depot --

2 A Yes, sir.

3 Q -- than you did at Lowe's?

4 A Yes, sir. So I was willing to trade the  
5 Home Depot partnership, which I felt really strong  
6 about a partnership there. I mean, you know, I  
7 was -- I would tell you I was an insider there. I'm  
8 still really close with those guys. I don't -- you  
9 know, I talk to them. We text. We don't talk air  
10 filtration. But I became pretty close with that  
11 organization, you know. And they embodied a lot of  
12 trust in me. And I was totally transparent.

13 So, you know, when Harry Smith negotiated,  
14 I would say, Ken, this is my cost structure. I mean  
15 this is what it cost me to have 4,000 employees in  
16 the plant. I've got to make something. And by the  
17 way, if somebody can do it cheaper, I don't know  
18 how. So I mean I didn't never -- I never tried --  
19 and I never tried to hide my balance sheet. So when  
20 I was in trouble I did this. I said, I've got  
21 challenges. This is my plan. And that's how I got  
22 the Lowe's contract. Lowe's felt like I was very  
23 forthright with them.

24 We never failed Lowe's. Lowe's called me  
25 up said, hey -- I said, I'll be there tomorrow. So

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1 I went to Mooresville, sat down. They said, This  
2 don't work for us. I said, I fully understand.  
3 Love you guys. You know, we will service you  
4 through an exit. Lowe's went to 3M. So you had the  
5 two big guns. We had Home Depot; 3M had Lowe's.  
6 And we really lined up against each other.

7 So when you talk about an air filter --  
8 you know, what I kept telling everybody is the media  
9 is the media. 3M's just getting the 28 million,  
10 because they're 3M. I mean we had the same media,  
11 right.

12 Q Now, what do you -- when you say media?

13 A That is the -- that's the stuff inside the  
14 filter where the air hits. So that would be media,  
15 right. So, you know, if this is your air filter  
16 frame, that's the media.

17 Q All right. For the court reporter, what  
18 you're referring to as the media would be the  
19 fiberglass?

20 A Or the -- it's fiberglass or what do we  
21 call -- I mean it looks like paper.

22 Q Yeah.

23 A Well, there's two different medias.  
24 There's fiberglass. Because we did a fiberglass  
25 operation, which we'll talked about. And then

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1       there's pleat media, which is the white stuff you  
2       see. And so the one differentiation we had, so I  
3       could tie the Pronamics together real quick for you.  
4       It's going to come -- it's really fluid. Is -- so  
5       and we can go back to it, but this is a good time to  
6       tie in.

7                   MR. CEGLOWSKI:       You want to take a  
8       break?

9                   MR. GRAY:       Yeah. Let's take a break.  
10       (Off the record from 9:58 a.m. until 10:06 a.m.)

11                   BY MR. GRAY:

12               Q       Mr. Smith, let me ask you this in regard  
13       to what you've just testified to in regard to these  
14       contracts that you developed based on, you know,  
15       your personal relationship. Did all of these occur  
16       while you were the CEO?

17               A       Yes. And let me qualify the word  
18       contract. They are not contracts. So they would be  
19       evergreen, which is a difficult part of the  
20       negotiation process. I wish we had contracts, so  
21       you could go to sleep at night. Those accounts are  
22       evergreen contracts, which means they can fire you  
23       at will without notice. So part of that is a  
24       strategy, obviously, to keep you front and center.

25                   So I personally negotiated the Home Depot

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1 contract and the Grainger contract myself, along  
2 with Charlie Kwiatkowski at Grainger and Travis  
3 Stephenson at Home Depot. But I led the efforts on  
4 both of those accounts from the CEO desk.

5 Q You were the main player in that regard?

6 A Absolutely.

7 Q Now -- and let's focus on the industry.  
8 Because it is a very small universe of participants;  
9 is that correct?

10 A It's evolving. There's some new players  
11 coming into the space. But, you know, if you take a  
12 look, Flanders has different competitors in  
13 different spaces. But you could tie them altogether  
14 in a handful of companies, and I won't go by space.  
15 But -- well, I will go by space. So retail, you've  
16 got 3M. This is your biggest competitor. And then  
17 we have a company called Protect Plus, which is a  
18 venture capital -- you know, what you want to call a  
19 disruption type model company. Purolater to some  
20 degree. American Air completely exited retail and  
21 put it in writing. So those were our competitors in  
22 retail.

23 In ARW, you know, we completed with, you  
24 know, Purolater, Glass Loss, Protect Plus in the  
25 most part, and a company called Filtration Group.

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1 Filter sales and service would have been those --  
2 those same players. And we competed at that point  
3 with American Air's direct sales force. With  
4 American Air and direct sales force we had a  
5 distribution -- se trusted you to go sell. We just  
6 sold you the filers. And high purity, our main  
7 competitor there was Camfil Farr, very well run, a  
8 very well capitalized company, and they were our  
9 main competitor in that space.

10 Q Now, going back to when you started with  
11 Flanders, was it the market leader in any of these  
12 categories?

13 A Unequivocally, no, in no way, shape, form,  
14 or fashion.

15 Q At the point that you began as CEO, was it  
16 the market leader in any of those categories?

17 A No.

18 Q During your tenure as CEO, did it become  
19 the market leader in any of those categories?

20 A Absolutely.

21 Q Which ones?

22 A We -- you know, we went -- we became the  
23 largest air filter manufacturer in the country. So,  
24 you know, we went from where people were counting us  
25 out, we were done, to the largest manufacturer in

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1 the country and growing double digits handily. So  
2 we led retail. I will tell you we had the  
3 predominant position in retail. And I had developed  
4 a marketing and brand strategy in retail that would  
5 have continued to have driven success predicated on  
6 the Home Depot relationship and our relationship  
7 with Wal-Mart and our relationship with ACE. So we  
8 had a significant amount of their market share.

9 We led the ARW portion of the business,  
10 which would be air conditioning, refrigeration and  
11 wholesale. So we became the predominant player in  
12 that space. We were not the predominant player in  
13 the filter sales and service space. It was a very  
14 tough space. We didn't -- we did okay there, but it  
15 was --

16 Q In that space did you improve?

17 A We dramatically improved.

18 Q During your tenure as CEO?

19 A During my tenure, but we were not the  
20 leader in that space. In high purity I would tell  
21 you we were the leader domestically, not  
22 internationally. But in the United States, you  
23 know, I felt like we had a predominant market share.  
24 We attempted to open in Europe, and I was  
25 unsuccessful. I was unable to make it go.

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1 Q In high purity?

2 A Yes, sir. I put a couple people over  
3 there and we started talking about manufacturing  
4 plants, people, place and things. It's a totally  
5 different structure in how they operate. I did not  
6 have, one, enough time; two, enough capital. So  
7 I -- I -- I gave it about a year trying to figure it  
8 out. Part of my strategy there was to exit.  
9 Because if we were going to sell the company, we  
10 were also selling opportunities. And I wanted to  
11 show that market is an opportunity. I could never  
12 get traction and I retracted. So as I exited, we  
13 were very much the predominant player in three  
14 spaces, in my opinion.

15 Q And you mentioned the largest manufacturer  
16 of air filtration in the country; is that correct?

17 A Yes, that's correct.

18 Q How did that compare to the world?

19 A I don't know what the world space is.  
20 That's a great question. I mean I've heard numbers.  
21 I don't know if I recall anything. But, you know,  
22 we were at a run rate of 325 or 335 when I exited.  
23 I don't know of anybody else that would have been  
24 that size. I'm not sure how big Camfil was. I  
25 don't think Camfil was that size. But Camfil is

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1 primarily high purity. So they didn't operate in  
2 any of the retail space, which is a big numbers, low  
3 margins. But to my knowledge, I don't know of  
4 anybody else in the world that was that size in air  
5 filtration.

6 Q And what do you attribute the success of  
7 Flanders going from not being the leader in any of  
8 those areas to it being the leader in at least three  
9 of those areas that you talked about?

10 A I was able to recruit some really great  
11 people. I gave them a story, gave them where we  
12 were going, got them on the plan. We ran a very  
13 fast-paced company. I was a very strong leader.  
14 And in that you're going to have lovers and haters,  
15 because I would fire you and did a lot. But I --  
16 I -- I attracted the best of the best in the  
17 industry. I had zero turnover. Nobody left me. I  
18 could hire anybody I wanted to. So I assembled an  
19 A-Team. And we ran a really fun, upbeat, fast  
20 company. I was over engaged in the company. It was  
21 a mistake of mine. At the age I was and you put  
22 what you put in, you get over engaged.

23 Q And when you say it was a mistake, you're  
24 talking about from a health standpoint?

25 A It was. I mean the problem I had was, you

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1 know, when I tried to exit I couldn't exit -- and  
2 we'll talk about that -- because they brought me  
3 back. And it's one reason I wanted to exit, because  
4 I kept saying, guys, I don't want to get hung up  
5 when this thing sells again, right. And I had that  
6 pressure on me that, we need you to sell. At some  
7 point you gotta go. And we'll talk about it when we  
8 get to that point on the dynamics of why I left.

9 But I -- you know, I -- I -- I was all in  
10 and I had a team that was all in. And I led -- I  
11 was heavily involved in sales. I was heavily  
12 involved in the procurement of the vendor base,  
13 driving cost out, you know, worked with vendors. I  
14 was very involved with customers -- I mean  
15 employees. You know, I made sure I visited plants,  
16 talked to people, walked.

17 And so I would tell you from that  
18 standpoint I was over engaged. Because at the point  
19 when it came -- I got the company where I wanted to.  
20 But then when I was trying to figure out how to get  
21 out, it got tough.

22 Q Were you the primary individual who led to  
23 the success of Flanders becoming a market leader?

24 A You know, without making an egotistical  
25 statement, there's no doubt. And I think Insight

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1 will tell you the same thing, and so would my Board  
2 of Directors. And I think the customers, vendors  
3 and employees would tell you that.

4 Q Were you the one at Flanders with the  
5 primary customer relationship with the most  
6 important customers?

7 A Absolutely.

8 Q And I think you mentioned those  
9 previously, but that's Home Depot --

10 A Yes. And I'll name what I would -- and  
11 there's a lot of -- everybody's key and critical.  
12 But, you know, when I got up in the morning time, I  
13 looked at it as though you can't -- we can't lose  
14 these. So these are the can't-lose-accounts. So it  
15 would be Home Depot. It would have been Grainger.  
16 It would have been ACE. It would have been Wal-  
17 Mart. It would have been Johnstone supply on the  
18 ARW side. It would have been C.C. Dixon. It would  
19 have been the Ware Group. So there was eight or ten  
20 people that I personally interacted with to make  
21 sure that if anything was going on, I knew about it;  
22 service level, quality, complaint, and then just  
23 personal relationships, building trust from the CEO  
24 desk.

25 Q And of those eight to ten entities that

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1       you just named, what percentage of the business do  
2       you think that accounted for?

3           A       I think if you're 335, I think that's 200.  
4       It's the number I put in the e-mail to Phil. I mean  
5       I think if I went in the space that I -- I mean I'm  
6       not -- in total transparency, I think I could  
7       absolutely move those customers. I'm not denying  
8       that. I think I would have a percent success in  
9       moving those customers.

10          Q       In other words, just to be clear, I think  
11       what you just are -- testified to was that if you  
12       went into competition with Flanders right now, you'd  
13       be able to get virtually all of that eight to ten --  
14       those eight to ten entities, which you equate to  
15       about \$200 million?

16          A       I feel that way. And so, you know, I'm  
17       not going to -- obviously, I'm not going to mislead  
18       you. I mean I feel that way. And, you know, that's  
19       predicated on a couple of different fronts. So, you  
20       know, why did I exit? One, I was incredibly tired.  
21       Two, I wanted to take the chips off the table. I  
22       mean, you know, mitigate risk. And, three, I had  
23       gotten everything I thought I could get out of it  
24       without really hunkering down for another five  
25       years, right. So I thought margins were going to be

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1 depressed, you know, on the retail side. I thought  
2 there was potential to lose market share from a  
3 destruction player.

4 My biggest concern was the scale and  
5 magnitude of the model with entry level labor. And  
6 so when I looked at the model, you know, we were  
7 4,000 employees, a great big number, 85 percent at  
8 your entry level labor. So we had built a model on  
9 entry level labor, that I also was seeing a shortage  
10 of. So we started, you know, having trouble filling  
11 plants, getting positions that -- you know, it  
12 started concerning me. Because you can't run a  
13 model without entry level labor.

14 Now, we started developing automation,  
15 which we developed in-house. Okay, slow down -- we  
16 started developing automation that we developed  
17 internally, and it was a booming success. But it  
18 still wasn't enough that you had to have significant  
19 entry level labor. So when I looked at the model,  
20 we had too many plants and, you know, not enough  
21 entry level labor. And I felt like, you know, we  
22 needed a massive amount of capital to fully automate  
23 the plants. So I just said, look, it's time for me  
24 to mitigate my risks and exit. And, you know, I  
25 was -- I was pretty open about that. And I also

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1 thought the right player could grow the business  
2 with the right capital structure.

3 And so I encouraged Insight that it was  
4 time to exit. And on one point I'm going to go  
5 back, because this is a critical point on two  
6 phases. This kind of ties Pronamics in. And I will  
7 tie it together in three minutes. So one of the  
8 issues -- or five minutes, Ken. One of the issues  
9 we had with Home Depot was 3M was manufacturing  
10 their own media. So they had proprietary media. So  
11 one of the reasons we were able to get Home Depot  
12 was we had found a company in South Carolina called  
13 ECN Industries. And the guy's name was Rick  
14 Chapman. And he was operating in a small, eight or  
15 10,000 square foot building. And we stumbled upon  
16 Rick, and Rick actually had developed the number one  
17 performing media in air filtration, one guy, a  
18 brainiac. Couldn't carry on a conversation, knew  
19 everything about air filtration media.

20 We took that as part of our package to  
21 Home Depot and is one of the reasons we were able to  
22 displace 3M. Because we had a media that actually  
23 beat 3Ms proprietary media. So went back to Insight  
24 and said, we've got to protect this product. And so  
25 Insight said, you know, we agree. We think that we

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1       should be in the media business as 3M is. We don't  
2       want to deploy anymore capital, because we want to  
3       exit. Will you help us?

4               I had an incredible relationship with Home  
5       Depot. I made a mistake. I put my capital in,  
6       bought ECN with the Board's support. And we became  
7       Pronamics. That's how Pronamics was formed, is we  
8       bought ECN, which had the proprietary media to  
9       service Home Depot. So we had -- that is how  
10      Pronamics came about.

11           Q     All right. Let me stop you there.

12           A     Sure.

13           Q     When you say, "we bought ECN," who is we?

14           A     So it would have been myself, Kevin Boyd,  
15      and John Paul Corey. So I had 65 percent ownership.  
16      Kevin had 25 and John Paul had 15. And John Paul  
17      was learning from Rick and learning the operation,  
18      because Rick had some age on him. And, you know,  
19      Kevin was helping us build equipment to enhance what  
20      Rick had. Rick was under capitalized, had one piece  
21      of equipment. We needed more.

22           Q     So when you -- the three of you bought ECN  
23      Industries, at that point you renamed it Pronamics?

24           A     Correct. Correct. We renamed it. Went  
25      to Home Depot. And then we developed a plan

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1 alongside Home Depot, Insight and ourselves to buy  
2 two pieces of equipment to supply Home Depot.  
3 Because we were having service issues. Rick  
4 couldn't run enough media, and then he had a down  
5 issue, I believe, one time and we -- we -- we  
6 collapsed Home Depot in the summertime. Now, this  
7 was in total transparency with Home Depot, but at  
8 that point, Home Depot had given me a hundred  
9 percent of the business.

10 So we sat down, we developed the equipment  
11 we needed, which was two pieces of equipment we  
12 bought out of Italy. And, again, I capitalized  
13 that, so it was my money. And we started Pronamics.  
14 And as a part of Pronamics, we had -- this is how  
15 the fiberglass operation started. We had a  
16 relationship with a company called Superior Fibers.

17 When I became CEO, the former CEO had  
18 gotten into the media business and had bought two  
19 pieces of equipment and opened the Clarkton, North  
20 Carolina, that made MERV 6, 7 and 8, which is your  
21 very entry level media. And when we were exiting  
22 anything that was not core, I spun that business off  
23 to our fiberglass supplier, Superior Fibers. We  
24 bought all our fiberglass air filtration media from  
25 them. And so we helped them get in that media

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1 business to help round the model up, and we exited.

2 How we ended up in the fiberglass media  
3 business was Superior Fibers shut down one of their  
4 main facilities and attempted to move it to Mexico.  
5 And it caused a catastrophic supply chain shortage.  
6 The plant was a colossal failure and they closed it.  
7 But we had a massive void in raw material that was  
8 key and critical to Flanders. So, again, we sat  
9 down as a Board with Insight and I said, we have  
10 to -- you know, what do we do here? We decided that  
11 we would start manufacturing our own fiberglass  
12 media. And, again --

13 Q Okay. Wait a second now. I'm confused on  
14 the timing of this. Is this before Insight had  
15 acquired --

16 A This is Insight ownership. Insight owned  
17 it.

18 Q Insight owned Flanders at the time?

19 A Uh-huh.

20 Q Okay.

21 A And myself.

22 MR. CEGLOWSKI: That's a yes or no?

23 THE WITNESS: Yes.

24 BY MR. GRAY:

25 Q All right, so -- okay. Let's go back

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1       then, okay, because I want to make sure we're clear  
2       on the timing of things and -- before we get to  
3       that. Another thing you mentioned earlier was that  
4       when you started with Flanders it was financially  
5       challenged?

6             A       Very much so.

7             Q       And even after you took over as CEO it was  
8       financially challenged?

9             A       For years.

10            Q       At what point would you say that it was no  
11       longer financially challenged?

12            A       I think -- I had a challenged balance  
13       sheet the entire time I ran the company. I never  
14       had a balance sheet where we weren't -- we weren't  
15       tight, but we -- we didn't have the -- for three or  
16       four years I battled to make payroll. So I'd say  
17       that's tight. And I didn't have bank support.

18                    When I turned the corner is when I got the  
19       company positive EBITDA and I was able to go out to  
20       the market and price our ABL for interest. That's  
21       the asset based lending which you run a company on.  
22       And PNC stepped in and gave me a much better deal  
23       than Bank of America, who had been with me. They  
24       supported me, but they didn't support me, right. So  
25       we would keep the company running but, you know,

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1 nothing else.

2 And we were able to move to PNC, which had  
3 a much better ABL structure, much less restriction  
4 on financial covenants. And I will tell you that  
5 that was the point that things really settled down.  
6 You know, we didn't worry about making payroll. We  
7 were a lot more current with the vendor base. I  
8 will tell you we never fully paid the vendor base on  
9 time, you know, when I was the CEO. So if you had a  
10 30-day term, we probably paid you 45. And -- but  
11 that went from -- we had 30-day terms and we paid  
12 you at 120, which is when I got it. And so that was  
13 a lot of communication with the vendor base.

14 But we still didn't have millions in  
15 capital, so we were building the company. So we  
16 were creating EBITDA, investing in equipment to try  
17 to grow revenues. Because I also knew I couldn't  
18 exit where I was at, because the \$3 and half million  
19 I got up front, the company wasn't worth it. I mean  
20 I made an uneducated buy there.

21 Q Now, I want to focus on when you became  
22 CEO, did the previous CEO resign, retire, or was he  
23 terminated?

24 A He was terminated.

25 Q What was his name?

Harry Smith

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1 A Steve Clark.

2 Q Did you immediately -- did the Board put  
3 you in immediately as CEO?

4 A I began as COO.

5 Q COO?

6 A Uh-huh. And I think I was COO  
7 approximately six months and became CEO.

8 Q Was there a CEO at the time?

9 A Robert came back in from Chairman and took  
10 a CEO role. But I will also tell you from the day  
11 one I was COO, I was acting CEO. So it was a title,  
12 but I really was acting CEO. And that -- that was  
13 premised on the Board that, you know, that there  
14 needed to be some period of time where, you know, I  
15 wasn't known and then became known to the investor  
16 base. They got confident and I got the official  
17 title.

18 Q And again, Robert is Robert Amerson?

19 A Robert Amerson, correct.

20 Q You earlier testified that you and Robert  
21 Amerson together came up with -- borrowed \$7 million  
22 to pay Mr. Clark upon his exit; is that correct?

23 A That's correct.

24 Q How did that number materialize?

25 A When we were publicly traded. So, you

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1 know, we took the term valuation on the stock market  
2 and bought him out at what the market was. I will  
3 also tell you that, you know, again, different level  
4 of education through your career, I would not have  
5 done that again. You know, I did not have the  
6 expertise to read a balance sheet, to understand  
7 what the real company earnings were and what the  
8 relieve valuation should have been.

9 I will tell you the real valuation was  
10 half of what I paid. Six months, I figured that  
11 out. But, you know, the valuation when I got the  
12 company was half of what I paid for it, because I  
13 had to clean up a lot of stuff on the balance sheet,  
14 you know, and -- so, you know, he had pushed  
15 earnings, you know, in my opinion when he shouldn't  
16 have. And so the other problem we had was this. We  
17 were not a highly traded stock, so the stock would  
18 just hang. There was no volume in it. So it was  
19 hanging at, I think, \$4. But, you know, it probably  
20 should have been hanging at two. But so --

21 Q Well, let me ask you this.

22 A Yeah.

23 Q Mr. Clark had a certain number of shares;  
24 is that correct?

25 A Uh-huh. Yes, sir.

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1           Q     And when you bought him out with the \$7  
2     million payment, it was buying that precise number  
3     of shares that he owned outstanding?

4           A     Yes.

5           Q     And you had to put a price on it?

6           A     We put the market price on it.

7           Q     Which was what anybody could have gone and  
8     bought it for that day --

9           A     That's correct.

10          Q     -- on the NASDAQ?

11          A     No discount. We bought him out at where  
12     the market was at.

13          Q     Were you obligated to buy him out?

14          A     No.

15          Q     Now, you've talked a good bit about your  
16     relationship with the important customers of  
17     Flanders, and I believe you've also testified that  
18     you still have those relationships?

19          A     That's correct.

20          Q     How about the vendors of Flanders? Do  
21     you -- did you have much Interaction with the  
22     vendors?

23          A     Very close relationship, tremendous  
24     interaction.

25          Q     Who were the vendors of Flanders when

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1       you -- at the time you were last CEO?

2           A       Well, we had a multitude of vendors, but  
3       we had a core of small vendors. So my strategy was  
4       very similar to Home Depot, Lowe's and Wal-Mart,  
5       which I would load the vendors up and they would  
6       need me to operate. And so I would force into their  
7       overhead structure, right? So I learned that trick  
8       early on.

9                   So my core vendors on the Precision Air  
10       side would have been Taylor Chemical, Jack -- Jack  
11       Temple, Walter @ Wire Lyre, (indiscernible) Atlantic  
12       Packaging. And then I had two different cardboard  
13       manufacturing companies because of capacity. And  
14       then I had two media suppliers on the Precision Air  
15       side. And then the only supplier in the country for  
16       fiberglass was Superior Fiber. They were the only  
17       ones that we could buy fiberglass from. So, we  
18       were -- we were locked in there.

19                  But I had -- and then what I did, those  
20       vendors also helped me turn the company around. So  
21       I sat down with those vendors, and as I grew the  
22       company I would ask for terms. So I would press  
23       into their balance sheet as I grew. And so, in  
24       effect, I had another ABL. So I would sit down with  
25       you and say, Ken, I'm getting ready to go to 20

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1 million, can you extend me another \$5 million credit  
2 and give me some terms until I get cash turning,  
3 because I had to hire people, buy equipment. You  
4 know, give us some time. And every one of those  
5 vendors worked with me in the growth of the company.

6 In return, they got a tremendous amount of  
7 volume. I canvassed the market constantly for  
8 prices. So we would go out and bid, bid, bid, bid.  
9 And then I would sit down with Ken and say, Ken, you  
10 know, I got to have you here. And then we would do  
11 the same thing the big box guys did to us. I'd take  
12 three points and tell you three points under.

13 You know, I did due diligence on certain  
14 companies during my term as CEO. That was one of  
15 the first things I looked at. And would tell you  
16 that every time I looked at one I was eight to ten  
17 points under on raw material pricing. I think it's  
18 accumulated on several things. I think the vendor  
19 base had a tremendous amount of respect and I knew  
20 that I was loyal, faithful and had had their best  
21 interests. I think they knew I was difficult but  
22 fair. And I think they knew that I would always  
23 come to them, and I did. And so I was very involved  
24 with the customer base, because a five point slide  
25 in raw materials is significant in that business.

Harry Smith

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1 Q Wait. Now, you just said customer base.

2 A I mean vendor base.

3 Q Vendor base?

4 A Yes. The vendor base is significant  
5 there, because a five, three, four point slide on  
6 raw materials is a major impact for us. So I was  
7 trying to drive one point in EBITDA. So every I  
8 could take out of the raw material side went right  
9 to the bottom line. And so I was very involved  
10 there, over involved.

11 Q Were you the primary individual at  
12 Flanders who had the strongest relationship with  
13 those vendors?

14 A Absolutely.

15 Q And do you still have relationships with  
16 those vendors?

17 A Absolutely.

18 Q Did you have access to Flanders'  
19 proprietary information?

20 A Absolutely.

21 Q Did you have access to its financial  
22 needs?

23 A Absolutely.

24 Q Its customers' needs?

25 A Absolutely. On proprietary information,

Harry Smith

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1       there really is none. So, you know, there's  
2       somebody in every single space and -- you know, so  
3       there's -- the only thing we had proprietary was the  
4       ECN media that we bought. And we bought that  
5       because Home Depot asked us to. They said, we want  
6       you to protect that for us. But outside of that --  
7       and, you know, somebody catches that, right. So you  
8       go back to dust collecting, pressure drop, and in  
9       six to nine months somebody's there typically, so.

10           Q       Do you have any intellectual property?

11           A       There's no intellectual property, in my  
12       opinion, in Flanders in any way, shape, form, or  
13       fashion that the market don't have.

14           Q       How about trade secrets?

15           A       There's no trade secrets in any way, shape  
16       or fashion to my knowledge that the market doesn't  
17       have and multiple players within the market.

18           Q       Were you involved in every aspect of the  
19       business as CEO?

20           A       Absolutely, over involved.

21           Q       And what would you say occurred from the  
22       time you took over as CEO till the time that you  
23       exited as CEO in regard to Flanders' reputation in  
24       the industry?

25           A       I think -- I think it had a complete, you

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1 know, evolution. You know, we went from when I took  
2 over and the constant word was they're going out of  
3 business, they're bankrupt, they're not going to  
4 make it, you know, they can't perform. We could not  
5 attract an entire team in the -- an entire critical  
6 staff. When I -- when I exited, I feel confident  
7 with were the largest air filter manufacturer in the  
8 country. We had rebuilt the retail brand, the our  
9 brand. We had opened new plants, put in new  
10 equipment, state-of-the-art equipment that we  
11 designed internally. We had -- at that point we  
12 hired key and critical people from every aspect of  
13 the industry. We had no turnover within key and  
14 critical faculty staff. And, you know, we were  
15 enjoying, you know, a very nice position as, there's  
16 no doubt, the leader of the market.

17 So I think it was a complete reversal of  
18 the corporation. And, again, I think it was 180,  
19 360, whatever the number is, but I think it was  
20 night and day.

21 Q And would you say that at the time you  
22 exited as CEO, Flanders was a powerhouse in the  
23 industry?

24 A Absolutely, absolutely, yes. When I  
25 exited -- so on the exit, we were very challenged.

Harry Smith

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1 Keep in mind, when Insight bought the company, the  
2 quadruple leveraged it. So, you know, where I  
3 thought I was leveraged, they took it times four.  
4 So I think I had -- these are rough numbers. I  
5 think I had 35 million in ABL, and I think they took  
6 it to close to 200 million. So I had -- all of a  
7 sudden I went back to tremendous pressure on  
8 financial needs. Because I was having to pay debt  
9 structures, right. So I was paying mezzanine debt  
10 and a tremendous amount of leverage debt.

11 Q What's mezzanine debt?

12 A Mezzanine debt would be high interest  
13 debt, where you can't get traditional debt because  
14 you're leveraged. And they hit me up with 18  
15 percent -- I think was the number in leverage debt.

16 Q I do want to go back to earlier. When you  
17 were talking about the operations that were in Texas  
18 and maybe south of the border there, you used a term  
19 that I was not familiar with.

20 A Maquiladora.

21 Q That, yes.

22 A Maquiladora is just a Mexican based  
23 operation that ships product into the United States.  
24 So we had one in Tijuana, still in Tijuana. That's  
25 become very challenged too, because there's so many

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1 manufacturers going to Mexico, the entry level labor  
2 is not there.

3 Q Okay.

4 A We exited because of the violence that was  
5 in there.

6 Q And as far as the time that -- from when  
7 you took over as CEO till the time in which you  
8 exited, can you describe Flanders' footprint and how  
9 it progressed?

10 A You know, when I got Flanders, we were in  
11 Washington, Smithfield, Florida, Salt Lake City,  
12 Mexico. When I exited Flanders, we were -- and  
13 Clarkton, North Carolina. They had bought the media  
14 facility in Clarkton.

15 Q So let's say those again, Washington --

16 A Yeah, Washington --

17 Q North Carolina?

18 A Yes. Smithfield.

19 Q Clarkton?

20 A Uh-huh.

21 Q North Carolina?

22 A Uh-huh. You had Dallas, Texas.

23 Q Dallas.

24 A You had Salt Lake City, Utah, and you had  
25 Illinois.

Harry Smith

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1 Q Where in Illinois?

2 A Oh boy --

3 Q That's fine.

4 A Momence, M-O-M-E-N-C-E -- and Tijuana,  
5 Mexico. We also had approximately --

6 Q You also mentioned Florida awhile ago?

7 A Yeah. We're in Florida.

8 Q Where in --

9 A Bartow, Florida.

10 Q Bartow, okay.

11 A We also had a corporate office in Saint  
12 Petersburg, Florida.

13 Q But I think your testimony was that some  
14 of these locations did not do well and needed to be  
15 out of the company?

16 A Correct. And we had approximately ten  
17 direct offices that were spread all over the  
18 country. So that would have been ten more roof  
19 lines.

20 Q Okay. And so with that ten offices,  
21 that's how it looked, the footprint looked when you  
22 took over as CEO?

23 A Correct.

24 Q Now, talk about at the time you exited.

25 A So when I exited, we had Washington,

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1 Bartow, Hudson, New York. Oh, we also had a plant  
2 in Pennsylvania when I -- when I took over. It  
3 originally was in Pennsylvania. But we had  
4 Washington; Smithfield; Hudson, New York; Bartow,  
5 Florida; Ardmore, Oklahoma; Tijuana, so a national  
6 footprint.

7 Q And so you probably -- you had less actual  
8 facilities?

9 A Yes, sir.

10 Q But you were much more profitable as a  
11 result?

12 A Way more efficient. So we went to big  
13 plants less, moved raw material, people less. And  
14 then, you know, the trick in this business is not to  
15 run one shift, run three shifts, same plant. So  
16 then you've got the freight dynamic. So, you know,  
17 what does it cost of a truckload of filters and  
18 should you have a plant or should you ship a  
19 truckload of filters? So we figured that out as we  
20 went along.

21 So I had a really neat model that is built  
22 on volume. You know, I had a national footprint,  
23 which you must have if you're going to play in the  
24 retail and the Grainger space. Because they want  
25 one -- you know, you've got to ship to all their

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1 distribution centers nationwide. So that was one of  
2 my plays. One of the problems is if you lose that  
3 piece of business, you cannot feed the plant. So it  
4 is an ultimate Catch 22 in what we had talked about  
5 earlier, in not losing market shares.

6 Q And back to the market share piece, you  
7 gave me that list, you said of eight to ten very  
8 important customers?

9 A There's four primaries there.

10 Q Lowe's would have been on that list,  
11 but -- because you had a good relationship with  
12 Lowe's, correct?

13 A Incredible relationship.

14 Q But you decided that it was even better --  
15 it was better for the company to have Home Depot.  
16 And you couldn't have both of them, so you made the  
17 deal?

18 A I made the -- made the -- made the  
19 business decision, and it was a correct one, to part  
20 with Home Depot nationwide. The brought us  
21 Honeywell Rehm, which gave us national branding for  
22 the first time ever. And we actually negotiated an  
23 open, transparent return. And, you know, we went  
24 to -- we probably had three points in profit on Home  
25 Depot until we moved to ten in total transparency.

Harry Smith

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1 And that year we were supplier of the year for Home  
2 Depot and vendor of the year for Home Depot.

3 Q And let's unpack that.

4 A Yeah.

5 Q Because when you say supplier of the year  
6 and vendor of the year, you're not talking about  
7 just in the air filtration. You're talking about  
8 every single vendor that Home Depot uses?

9 A Well, it would be by department. So we  
10 were the D26 plumbing. And I said there's five big  
11 key departments. So you've got lumber. We were  
12 vendor of the year, supplier of the year for D26  
13 plumbing first time in the history of the company.  
14 So you're talking about a company that went from  
15 bankruptcy to being supplier of the year, big  
16 recognition, lots of rewards. And I got put on  
17 their foundation site.

18 Q Okay. Now, and you just mentioned  
19 bankruptcy. Actually, Flanders, has it ever been  
20 bankrupt?

21 A No. But I mean I will tell you that today  
22 if you were to call me up -- and, you know, I get  
23 offers all the time to run companies now. That if  
24 you gave me Flanders today, with the skill set I  
25 have today versus the skill set I had then as an

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1       unprepared CEO, my recommendation today would be to  
2       put the company into bankruptcy. And that is what  
3       Bank of America recommended to me as a young,  
4       inexperienced CEO.

5               They said, Harry, you need to put this in  
6       bankruptcy. You can't fix this. I said, guys, I'm  
7       going to give it a shot. But keep in mind the  
8       driving premise of that is I had borrowed \$3.5  
9       million. So, you know, it's not that -- that was my  
10      driving premise for not putting it in bankruptcy. I  
11      mean, you know, at that point I'm just starting and  
12      I'm going, well, honey, we've lost the house. So  
13      today if you brought me in, with the skill set I  
14      have today, I'd say, Ken, that's the very best thing  
15      we can do. Your balance sheet's shot.

16             You know, you've got model problems.  
17      Let's reorganize, shrink the company and then start  
18      regrowing, total transparency. I would not put the  
19      company through the moves that I put it through.  
20      And I don't think many people would. I mean it  
21      really impacted my health and -- and -- but I was  
22      somewhat trapped. And so, thus, also the desire to  
23      exit when I exited.

24             Q     You were trapped because you had put in  
25      your own money, right?

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1           A     I couldn't get out, right. There was not  
2     a buyer for my stock, nor a return. So, you know,  
3     the valuation of the company wasn't there.

4           Q     But ultimately you built the valuation  
5     because of your own efforts?

6           A     I built it and, you know -- now from an  
7     exit standpoint, you know, we sold the company at  
8     225, something like that. I sold the real estate  
9     prior to that. So when Robert actually exited the  
10    company and I become Chairman, approximately the  
11    last year to 18 months I was Chairman as well. So I  
12    was CEO and Chairman.

13          Q     That would have been --

14          A     The end of '05, something like that. It's  
15    all public record, but I became CEO and Chairman and  
16    Robert exited the Board.

17          Q     That was about the last year and a half or  
18    so --

19          A     Yeah.

20          Q     -- before you exited?

21          A     Correct.

22          Q     So that --

23          A     Before I sold to Insight.

24          Q     So that would have been in maybe the 2013  
25    time period?

Harry Smith

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1           A     Yeah.  It's '13, something like that.  I  
2     became -- I became CEO and Chairman.  And in that  
3     process, I bought him out of the real estate.  So I  
4     took him out of the facilities that he and I owned  
5     together.  So I bought all that real estate from  
6     him.  And he was going in another direction, so he  
7     had gotten into the development business, hadn't  
8     been active in the business for three or four years,  
9     but he had the Chairman title.

10          Q     And I haven't asked you about this yet.  
11     But you were -- when did you get on the Board?  Was  
12     that when you --

13          A     On day one, yes.  When I became CEO, I  
14     became a Board member, yeah, day one.

15          Q     Day one of being CEO?

16          A     COO.

17          Q     Oh, COO?

18          A     Right.  I was a Board member then.

19          Q     Okay.  So when you went from being in  
20     charge of high purity operations to COO, that's when  
21     you became a Board member as well?

22          A     Yes.

23          Q     Okay.  Now let's -- let me ask you,  
24     because you mentioned this earlier -- about taking  
25     Flanders private.  When did that occur?

Harry Smith

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1           A     I don't remember the specific dates and  
2     times, Ken, but it was probably approximately a year  
3     before I sold it to Insight. I took it to what they  
4     call pink sheets, which is kind of an intermediary  
5     to going private.

6           Q     And so this would have been after you were  
7     Chairman?

8           A     Yes, sir.

9           Q     Okay. So it might have been --

10          A     No, no, I was Chairman probably half the  
11     time we were on pink sheets. Robert was still Chair  
12     when I went to pink sheets.

13          Q     So this could have been the 2012, early  
14     2013 time period?

15          A     It's all public record, but that's  
16     probably right.

17          Q     Now, will you tell me about Insight.

18          A     Sure.

19          Q     What is Insight?

20          A     Insight Equity is a middle market private  
21     equity company out of Texas. You know, so when I  
22     went to pink sheets, I had two options. I could  
23     take the company private myself, and I had the  
24     option to do that. Or I could sell it. And I did  
25     not want to take the company private for the things

Harry Smith

June 2, 2017

1 I had told you before. My concern was with the  
2 model. And so we put a book together and hired an M  
3 and A firm and went out and met with 25 or 30  
4 different potential buyers.

5 And Insight was the high bidder. And we  
6 went back and forth with them and were able to get a  
7 transaction done, and all the shareholders were  
8 happy. So we, you know, moved the company to  
9 ownership structure of Insight and Harry.

10 Q Okay. Now, let me ask you this. You said  
11 all of the shareholders were happy. Would these be  
12 shareholders of the private entity at this point?

13 A Right. So when we went from NASDAQ to  
14 pink sheets, your shares still move. So you know,  
15 we had mutual funds and we had embodiment of  
16 shareholders. And so we were able to negotiate a  
17 price that everybody said, okay, we're -- you know,  
18 we're happy and, you know, we're able to move it  
19 through that next phase, which is somewhat untypical  
20 that you don't incur any significant losses in that  
21 process.

22 Q And so when Insight came in, were there  
23 additional shares issued?

24 A No. Insight took out the entire  
25 shareholder pool, and they owned everything except

Harry Smith

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1       what I owned.

2           Q       So there were two owners of Flanders at  
3       that time?

4           A       That's right.

5           Q       It was Insight Equity Holdings --

6           A       Uh-huh.

7           Q       -- and Harry Smith?

8           A       Correct.  Insight's original request was  
9       that I remain completely in.  I said I'm -- my goal  
10      here is to mitigate risk and, you know, I want to do  
11      some other things.  And so I'll leave a portion in  
12      but, you know, I'm going to take a portion work.  If  
13      that doesn't work and that doesn't work.  I had  
14      already sold all our real estates.  I had gotten off  
15      of that risk.

16          Q       Okay.  Let's -- then let's back up.  The  
17      real estate that you owned that you sold, what was  
18      that?

19          A       That was the plants that we had talked  
20      about earlier that I sold.

21          Q       And did you sell them all to one buyer?

22          A       Sold every one of them to W.P. Carey out  
23      of New York, a REAT.  So I went to the Board --

24          Q       Can you spell Carey?

25          A       It's C-A-R-E-Y.

Harry Smith

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1 Q And it's a REAT?

2 A It's a REAT. And the individual I dealt  
3 with was a guy name Gino Sabatini, who is still  
4 there.

5 Q And the REIT bought a hundred percent of  
6 the real property that you had owned --

7 A For the company.

8 Q -- for the company?

9 A Right. And, you know, when you're  
10 public, you know, all this is full disclosure. So  
11 we had to disclose, you know, everything from lease,  
12 rents, market. Then we had to do market valuation  
13 and everything has to be arm's length, you know.  
14 But it turned out to be a really great deal for me,  
15 but it could have turned out to be a really bad  
16 deal. So I mean it was a Catch 22 until I got the  
17 company turned. And as soon as I got the company on  
18 a stable platform, I went to exit mode, which also  
19 means I wanted off the real estate.

20 And so, I think Christian was a big  
21 adviser for me then, Ken, Christian Porter. And so  
22 I went to the Board and said, look, I'm over exposed  
23 here. It's time for me to mitigate risk. You know,  
24 the company's doing well. And so we took the -- we  
25 ratified the leases and took it to market and I --

Harry Smith

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1 and I mitigated that risk with W.P. Carey. And  
2 really from a balance standpoint, it's really much  
3 more balanced to have the insider transactions like  
4 that. I did it because I was forced to have to  
5 rebuild it. So I exited, and it turned out to be --  
6 to be a solid exit for me.

7 Q Now, was this done in your name or did you  
8 have an LLC?

9 A I had an LLC.

10 Q And what was the name of that LLC?

11 A It was National Warehouse Leasing, which  
12 still operates today. So during that time period  
13 when I started -- the company started performing  
14 and, you know, my wealth start growing, you know, I  
15 moved into the multi-family business in a big way,  
16 student housing.

17 Q So that's what National Warehousing  
18 Leasing is doing today?

19 A Correct. It's very -- you know, I'm  
20 actually a pretty big player in the student housing  
21 market.

22 Q But none of that's related to what you  
23 were doing at Flanders?

24 A That jump started me. I created National  
25 on the first plant I bought.

Harry Smith

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1 Q And you bought every plant personally  
2 through National Warehouse Leasing?

3 A That's correct.

4 Q Who was the -- you said it was an LLC?

5 A Uh-huh. Yes, sir.

6 Q Were you the only member?

7 A Only member.

8 Q At the time you sold to W.P. Carey, how  
9 much liability did you have? What was the amount  
10 owed?

11 A Approximately -- this is approximate. I  
12 mean I'm going to say 30-plus million.

13 Q How much did you sell it for?

14 A I don't -- I don't think that's relevant.  
15 I will tell you I made a significant gain.

16 Q You earlier mentioned Steve Clark getting  
17 bought out for \$7 million. How did he get those  
18 shares?

19 A I don't know. You know, he took the  
20 company public, so he met Robert and he was with a  
21 customer. And Robert was trying to figure out how  
22 to get the family that had found it, Flanders in  
23 Washington, out. And Steve was more of a whiz Wall  
24 Street type of guy, actually a very brilliant guy  
25 finance-wise, but not so much operations-wise. So

Harry Smith

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1 Steve was the guy that everything he was going to do  
2 was going to work and he went all in. And he didn't  
3 really measure and moderate his decisions, but a  
4 very smart guy.

5 He talked Robert into the fact that he  
6 could take the company public, raise a lot of money,  
7 buy up some people and exit. They took the company  
8 public, raised 30 or 60 million in their first  
9 offering, bought Precision Air, bought Air Seal.  
10 They bought a commodity of air filtration companies,  
11 put it together, and it never performed. So it's  
12 the classic example of raising capital and  
13 overpaying. So, you know, he raised capital and  
14 overpaid to employ capital.

15 Q I guess my question was do you know if he  
16 purchased stock or was he granted stock?

17 A He was granted stock, yeah. I don't -- to  
18 my knowledge, I don't know of Steve ever buying a  
19 share.

20 Q Okay. And then at any time during your  
21 employment did you ever buy any shares?

22 A Not that I recall. I was gifted one  
23 million shares by the Board.

24 Q But you don't recall buying any?

25 A I don't recall buying any. I was gifted a

Harry Smith

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1 million shares and I also had options that, if I  
2 recall, were probably 250,000 shares. But I was  
3 gifted one million at zero consideration.

4 Q All right. Well, let's go back. You said  
5 you had options on 250, but you didn't exercise  
6 those?

7 A I did exercise those.

8 Q Okay.

9 A Right.

10 Q All right.

11 A Yes.

12 Q When were you gifted the one million  
13 shares?

14 A I'd say two years into my CEO leadership  
15 role, Ken. And how that went down is we had a Board  
16 meeting, and I had, in my opinion, significantly  
17 overpaid for the shares I bought. I think I had to  
18 back that in detail to prove that it was not worth  
19 3.5 million when I bought them.

20 Q You're talking about when you bought Clark  
21 shares?

22 A Clark shares, right. And I basically went  
23 in and said, guys, you know, I took on significant  
24 risk here. You know, I was not knowledgeable. I am  
25 now. This is what I really think it was worth. I

Harry Smith

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1 think they agreed. And I said, This is what I want  
2 in consideration of me putting my family at risk, me  
3 at risk and my health at risk. And I said, I'm  
4 asking for a million shares.

5 Q Okay. So let's go back. Because I guess  
6 you did buy some shares when you bought Clark out?

7 A I did buy six shares, correct.

8 Q Okay.

9 A So Robert and I bought those 50-50. And  
10 that's off of the records, I think, yeah.

11 Q Do you recall how many shares that was --  
12 that amounted to?

13 A That was about -- I think it was about \$4  
14 a share, something like that. So whatever it comes  
15 to, 750, 800,000, something, a million shares.

16 Q So close to -- upwards of three-quarters  
17 to a million shares?

18 A Approximately.

19 Q And then you were gift another million?

20 A Million. And then I had options of, I  
21 think, 250,000. But it's all public record. I  
22 think when we exited I was the second largest  
23 shareholder in the company. And Robert and I  
24 collectively controlled about 50 percent of the  
25 company.

Harry Smith

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1 Q And then was Robert bought out by Insight?

2 A Correct. Robert came to me, Ken, and  
3 said, I'm ready to go. It's time. If you want to  
4 buy me out, you can buy me out. But I'm ready to go  
5 ahead and exit. And at that time he had got into  
6 the development basis and was pretty challenged in  
7 that great recession. And I really never  
8 contemplated buying him out. I said, I'd be remiss  
9 in telling you. I never really had any interest in  
10 buying the company. And I was very forthright when  
11 I met with the Board. I would also tell you that I  
12 had a Board that would have supported that.

13 And they were saying, Harry, you know,  
14 think about this. But the problem at that time was  
15 I was over engaged, which is somewhat my persona.  
16 But I also knew that I had to have some balance.  
17 And I also wanted to mitigate my risk. And so I had  
18 built enough wealth then that I said, okay, it's  
19 time.

20 Q Because by that time you had sold the real  
21 estate and --

22 A And I had also gotten into the multi-  
23 family business and I had hit it right on time. So,  
24 you know, the first two complexes I bought, you  
25 know, were in bankruptcy, great recession. And, you

Harry Smith

June 2, 2017



1 know, I paid five and ended up selling 17 and 18.

2 So I mean I had built some wealth there.

3 Q But Insight's the one that ended up buying  
4 Robert Amerson out?

5 A And myself, except what I kept in,  
6 correct. Insight took everybody out but me.

7 Q And they took out part of you as well?

8 A Correct.

9 Q Okay. How much did Insight take or pay  
10 you?

11 A I don't recall the transaction amount. We  
12 sold at 4.25 a share, approximately, something like  
13 that, 4.28, if I remember correctly. And I left  
14 660,000 shares in, which was equivalent to the  
15 current value of what we sold for. That became a  
16 dollar a share, so whatever that number was. I  
17 don't recall. And then I took that portion and paid  
18 off my original 3.5 million. And then the bulk of  
19 my gain was the million shares that I was gifted in  
20 my options.

21 There was no gain on the shares I bought  
22 from Steve Clark. In fact, I actually, if I  
23 remember correctly, lost money because of the  
24 interest I paid on the \$3.5 million. So my gain  
25 became the million shares that I was gifted and the

Harry Smith

June 2, 2017

1 250 shares that I sold, as well as, you know, I had  
2 a significant income period there from -- from rent  
3 and W-2.

4 So I was making approximately a million to  
5 1,250,000 a year, you know, to run the company,  
6 compensation and bonuses. And then, you know, I had  
7 the rent on top of that. So I mean my income, you  
8 know, at that time, including the multi-family, I  
9 was probably making \$3.5 million a year.

10 Q The multi-family, though, is not related?

11 A Not related. I mean that was --

12 Q So if you took that out --

13 A Yeah, probably \$2 million a year.

14 Q Two million dollars from your  
15 compensation, the -- and the amount that you were  
16 renting to the company?

17 A Uh-huh. That's correct. Yeah, that's  
18 correct. And then -- so, yeah, I had built some  
19 significant wealth there. And I had built enough  
20 wealth that, you know, I didn't want to continue to  
21 push in. I wanted to push out. And so -- and was  
22 pretty tired and wanted to do some other things.  
23 And I was very upfront with Insight about all that.  
24 I said, guys, this is where I'm at. I'm not going  
25 to be a long-term player for you.

Harry Smith

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1                   This is my recommendation that you buy  
2                   this company. Let me rev revenues up, really  
3                   increase sales, drive EBITDA as hard as we can, and  
4                   you guys should exit. And I'll exit with you, but I  
5                   want to go ahead and slide backwards. I don't want  
6                   to be the guy on the front of the exit. That was  
7                   our plan when they bought the company.

8                   Q     Okay. And basically when a private  
9                   equity firm buys a company, it doesn't desire to run  
10                  it for a very long period of time?

11                  A     No. I mean their goal was -- and I made  
12                  a commitment to stay with them. Now, listen, I  
13                  learned a lot about private equity on leverage. You  
14                  know, because when I sold them the company, the  
15                  conversation that I had is, guys, if grow it, I'm  
16                  going to need working capital because we're  
17                  leveraged. So if I grow revenue, you've got to give  
18                  me money for inventory, to hire people and to buy  
19                  equipment. But it would be a direct injection into  
20                  the business. And they said, You grow revenue and  
21                  we'll give you working capital.

22                  MR. GRAY:       Let's go off the record. I  
23                  need to take another break.

24                  (Off the record from 10:59 a.m. until 11:08 a.m.)

25                  Q.     So, Mr. Smith, we were getting into

Harry Smith

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1 talking about Insight. So, could you tell us how  
2 that came into being?

3 A. Sure. We took the company to market and I  
4 think we showed it to 25 to 30 different buyers,  
5 would have been strategic buyers and also would have  
6 been financial buyers, Insight being a financial  
7 buyer. Insight was the high bid. We took it and we  
8 actually out of showing it to 30 qualified buyers we  
9 actually had two offers total in the corporation.  
10 So, not a lot of interest.

11 Q. Insight was the high bid and the Board  
12 accepted Insight's bid?

13 A. Correct.

14 Q. What role did Insight want you to have?

15 A. Chief Executive Officer and I was a member  
16 of the Board as well.

17 Q. And was it still Flanders Corporation?

18 A. Correct, Flanders Corp.

19 Q. Do you recall when this sale occurred?

20 A. It's public record I -- if I recall was  
21 August 2015 or something -- no, '14, in that time  
22 period. '13, '14, I'm terrible on that stuff, but I  
23 mean it's public record.

24 Q. Did you execute a separation agreement at  
25 that time?

Harry Smith

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1           A.    I executed a long term incentive  
2           compensation plan, and I don't actually recall all  
3           that I executed. Obviously it was a tremendous  
4           amount of documents at that time. The one document  
5           I do remember was the long term incentive  
6           compensation plan that they offered me.

7           Q.    Was your role changing in any way?

8           A.    No. I was no longer Chairman of the Board  
9           but I was still CEO and a member of the Board.

10          Q.    Were you just regular member or were you  
11          Vice Chair?

12          A.    No, I was just a regular member of the  
13          Board.

14          Q.    Okay. And you believe that was the summer  
15          of 2014?

16          A.    Somewhere in that time period.

17          Q.    How did things progress from that point  
18          forward?

19          A.    I would think it probably progressed as  
20          typical fashion, a middle market company that gets  
21          over leveraged. So, what was unique in this process  
22          was when I sold to Insight, they told me that they  
23          did not take distributions, that I never had to  
24          worry about giving a distribution to Insight.

25                So, they did put a lot of leverage on it

Harry Smith

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1 including mezzanine debt, which I understood when we  
2 closed. Approximately 90 days into the close I was  
3 contacted by the CEO and Chairman of Insight and he  
4 asked me for a \$7,000,000 distribution.

5 Q. And just to be clear for the record,  
6 earlier we were talking about distribution and that  
7 was we were talking about selling product --

8 A. Product.

9 Q. -- to a customer. Now when you're talking  
10 about distribution, you're talking more in terms of  
11 a dividend?

12 A. Correct. So, he contacted me and it was  
13 early on, 90 to 120 days, if I remember correctly, I  
14 think that's approximately, and asked me to come up  
15 with a \$7,000,000 distribution to Insight.

16 Q. Who was this person?

17 A. It would have been Ted Beneski, the CEO of  
18 Insight and the founder of Insight. I was taken  
19 back. My CFO John Oakley who had been with the  
20 through the entire process was taken back. We kind  
21 of came back and holed up and there was absolutely  
22 no way I could do it. The balance sheet was  
23 incredibly stressed. I would have had to gone back  
24 to early days. And so, I basically went back and  
25 said absolutely impossible. And then I think there

Harry Smith

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1 was a little bit of a friction based on that. But  
2 I'm pretty good with balance sheets and income  
3 statements, there was just absolutely no way I could  
4 figure out how to do that.

5 Q. And was he also the Chair of the Flanders  
6 Board?

7 A. Correct.

8 Q. Okay. So, he was Chair of both.

9 A. Correct.

10 Q. And so you told him you couldn't do it?

11 A. Couldn't do it.

12 Q. And what was the response?

13 A. Brad Buser, who was the lead person from  
14 Insight who led the buy of Flanders understood. I  
15 mean he called me and, you know, I was a little bit  
16 perplexed at the change in landscape very quickly.  
17 And he said no, I understand, don't worry about it.

18 I think it created just the feel some  
19 dynamics between Ted and I. I think Ted felt like I  
20 never really vetted to figure out if I could get the  
21 7,000,000 but I'd lived with the balance sheet for a  
22 long time. I knew it wasn't there. It created a  
23 big issue with my CFO and subsequently I lost him.  
24 And that was the premise of me losing John, who was  
25 very important to the company.

Harry Smith

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1 Q. And the CFO you're referring to is John  
2 Oakley?

3 A. Correct. Correct.

4 Q. Now, explain why because if you say we  
5 can't do it, then --

6 A. John basically came in and he had done  
7 fairly well in the sale of the company. I don't  
8 know exactly what his gain was but probably, you  
9 know, a couple million dollars approximately. And  
10 he just said this isn't going to work. I don't want  
11 to go back down this road, and I need to go.

12 And I think that set the path for some of  
13 the challenges because John was a very -- he'd  
14 managed the balance sheet with me a long. But he  
15 exited, that was the premise of the exit. I'm going  
16 to say that was the complete exit but that started  
17 the -- him having a very difficult relationship with  
18 Insight.

19 Q. And just to be clear, how much did you  
20 make on the sale?

21 A. On the sale of the company? On the  
22 original stock I bought I lost money. So, my  
23 original investment of three and a half million I  
24 lost. The shares that I was awarded, you know, I  
25 made whatever we sold the company for. And then I

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1       kept \$660,000 in at par value of the sale. So, it'd  
2       been what we got at the sale price and the valuation  
3       on that I think they had it at \$1 share so they  
4       redid the valuation. But I kept \$660,000 in  
5       approximately. So, the 660 was what I left in based  
6       on the price that they sold at -- they bought us at.

7           Q. Did you mention earlier that you thought  
8       the price per share was 28?

9           A. No, it was -- it was probably 4.28 or  
10       something like that. You know, we sold for  
11       approximately 200,000,000, 225,000,000 but that  
12       includes debt, you know, everything that goes along  
13       with it.

14          Q. But \$428 per share?

15          A. No, no, no, \$4.28.

16          Q. Okay, yeah. So, basically you could  
17       multiply --

18          A. It's all public record.

19          Q. Right, 4.28 times a million and that would  
20       be what you received?

21          A. Correct, right. Well, when I had my final  
22       exit, I had no gain. So, I actually had wanted to  
23       leave my shares in and they wanted me to go ahead  
24       and completely get out of the ownership structure.  
25       So, they forced me out. I knew the value of the

Harry Smith

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1 company was much higher at that time because we had  
2 grown \$100 million.

3 And Insight basically said you know what,  
4 if you want to exit, that's fine, then you can't be  
5 an owner. And part of the exit they forced the sale  
6 of my 660,000 shares at significantly below market.  
7 So, you know, I left a significant amount of money  
8 on the table from my shares. So, if you would  
9 calculate the value I had grown the company to, you  
10 know, the overall transaction I lost money. So, you  
11 know, I grew the company \$100 million from the time  
12 Insight bought it till they exited and so your  
13 valuation jumps significantly.

14 And so, I actually said Brad, my share is  
15 worth a lot more than this and they would only give  
16 me par value on the exit. And so, it was kind of,  
17 you know, some pretension there, and I actually  
18 exited at a significant loss, you know, when I sold  
19 my 660,000 because I didn't get any gain on it at  
20 all based on two and a half, three years of immense  
21 amount of work and moving the valuation of the  
22 company.

23 So, you know, if you look at company  
24 valuations, you know, we grew \$100 million in my  
25 last tenure there before I exited. I got no -- I

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1 got no return on that at all. I was vested in my  
2 long term incentive compensation plan. So, if you  
3 go back and look at the paperwork, I had a  
4 significant long term incentive compensation plan  
5 that was extremely generous because they wanted to  
6 retain me. And so, I was vested. Even if I exited  
7 and walked out the door, I was contractually vested  
8 in the gain of the company.

9           When I exited, I voluntarily gave up the  
10 long term incentive compensation plan with the  
11 written request and verbal request that that went to  
12 my employees. The value of that I think was  
13 probably \$5,000,000,000 that I -- that I -- when I  
14 left, my request was that it went to the employees  
15 of Flanders Corporation. I had done really well and  
16 it was a pretty emotional exit. And but I  
17 voluntarily gave up the LTIC. Victor Vescovo called  
18 me and said this is the first time in history I've  
19 ever seen anything like that. But I voluntarily  
20 gave that up and the request was it went to Flanders  
21 Corporation.

22           And I don't know that they honored that  
23 but I made that request to Victor and Brad that my  
24 LTIC would be awarded upon the sale of the company  
25 and at that time I mean Victor even said Harry, do

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1       you know what this is worth and I said I do. So, I  
2       was trying to exit with the best, you know, premise  
3       in mind. The history on that, as you know, you  
4       know, I went to the Board, we brought Peter Jones  
5       in. Peter was not a great hire and Insight agreed  
6       with me. The CFO actually called for his  
7       termination. I stepped in and mitigated that. The  
8       biggest mistake I made was when I returned.

9           Q.    Okay. We need to get this time. So, the  
10       sale occurred, you were still CEO.

11          A.    Uh-huh. Yes.

12          Q.    And at what point did Peter Jones come  
13       into the picture?

14          A.    Great. So, some history there I don't  
15       remember the exact dynamic, probably 18 months in.  
16       So, how did Peter Jones come into the picture. You  
17       know, I had invested in Pronamics at Insight's  
18       request and we had developed a plant in Wilson that  
19       I completely capitalized that made two different  
20       media. So, it made MERV six, seven, and eight media  
21       and it made the electrostatic media for Home Depot.

22                So, we were self sufficient in media and  
23       in internal consumption arm's length everybody knew,  
24       you know we were below market and controlling the  
25       technology. What happened to bring Peter Jones in,

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1       there's a company called Blackstone, and Blackstone  
2       had a \$15,000,000 mezz strip with us at 18  
3       percent -- it may have been 20,000,000 but they had  
4       a mezz strip. And Blackstone owned the company  
5       called PGI Industries and PGI Industries made MERV  
6       six, seven, and eight media.

7               So, we were moving the buy to Pronamics  
8       with Insight's support. And they were trying to  
9       sell PGI Industries. And Brad Coleman, who was the  
10      lead guy at Blackstone who I met with, we went up,  
11      we had put the company in a tremendous growth  
12      curve -- \$100 million in probably six months.

13             We took on Home Depot nationwide, took on  
14      Grainger, 4,000 new part numbers overnight. I think  
15      we hired four to 500 people. We have to buy five,  
16      six, \$7 million of equipment to service it with.  
17      So, big dynamic change to the company, right?

18             I flew to Texas. I said guys -- with the  
19      CFO, who was Scott Brown, I said guys, this is the  
20      dynamic change I talked to you about. You know, the  
21      company's going to through a curve, we're going to  
22      get insufficient, we've got 4,000 new part numbers,  
23      we've got to hire new people. So, we're going to go  
24      through a curve with EBITDA, you know, we're going  
25      to come out here and we were here. But we're going

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1 to dip and I need capital.

2 So, we started the dip and it was pretty a  
3 pretty stressful time when you went from 225 to 335.  
4 Those are pretty close variables. I got no working  
5 capital. So, they gave me \$5 million at a bullet at  
6 high interest.

7 So, Brad Coleman really started getting  
8 over involved and at the same he started putting  
9 pressure on us to PGI, who they owned as a portfolio  
10 company. And we had the conversations internally  
11 with Insight and Brad Coleman was just continuing to  
12 step in. He was calling me direct. I thought it  
13 was, you know, very inappropriate. We had a much  
14 lower price than PGI was giving us internally.

15 Long story short I got sideways with Brad  
16 Coleman and Coleman threatened Insight to pull it.  
17 Brad Coleman--

18 Q. And when you say pull it, you mean pull  
19 the loan --

20 A. Right.

21 Q. -- and call -- and make a call?

22 A. Right. Victor Vescovo and the Board at  
23 the Bartow plant internally and Victor said, Harry,  
24 we've lost our soul to the bank. Right? And I said  
25 okay and he said, you know, Brad is -- we can't

Harry Smith

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1       afford to lose Blackstone in our bigger  
2       organization. We need you to step back and go to  
3       the Board and let us bring in a guy that you work  
4       with because you and Brad, you know, are butting  
5       heads. I said that's fine, I don't have any problem  
6       with that.

7               And so, we actually -- that's how Peter  
8       Jones came in. We had a great meeting in Bartow. I  
9       said I'll go to the Board, which really worked for  
10      me. So, I went to the Board, we brought Peter in.  
11      Peter had been unemployed approximately seven to  
12      eight years. He was -- from a dynamic standpoint it  
13      was a big mistake. Insight will tell you that  
14      today. Brad and Victor will both tell you he was a  
15      full British accent going to Home Depot just doesn't  
16      work, right?

17             So, I was at the Board and pretty happy  
18      and really was this is myself. Brad Coleman stepped  
19      in and started a full blown attack on Pronamics to  
20      get PGI back the media business. So, I had invested  
21      in Pronamics for Insight at Insight's request  
22      everything like we had said and we were going to use  
23      the Pronamics piece in the sale. So, when we were  
24      looking at selling the company, we were going to  
25      roll Pronamics in so they vertical supply on the raw

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1 materials side.

2 Q. Okay. Let me stop you there. The plan at  
3 that moment was that obviously since this was a  
4 private equity firm they want to flip this thing,  
5 they want to get it --

6 A. Correct.

7 Q. -- get in a position where it could sell  
8 it for a profit and the plan was that you were going  
9 to be the CEO until that occurred?

10 A. Uh-huh. Yes.

11 Q. And that Pronamics, which you and the  
12 other two guys still owned, was going to be part of  
13 that deal as well as Flanders?

14 A. Correct. So, we were going to be vertical  
15 in the raw materials side with technology. So,  
16 there was only one other superior -- there was only  
17 one other fiberglass supplier in the country and  
18 they had a catastrophic events. So, we were  
19 controlling the supply chain with fiberglass, too,  
20 and we had all our internal consumption and we had  
21 put together a robust research and development team  
22 on the media side.

23 So, we opened a plant in Wilson and that's  
24 where the media was made, and we have a plant in  
25 Washington where the fiberglass was made. All

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1 ground zero build ups. So, I go to the Board and  
2 Brad Coleman immediately starts putting pressure --  
3 because the procurement guys I would come into the  
4 plant and the procurement guys would say hey, Harry,  
5 can we talk to you. And I'd go in there and they  
6 said hey, we just had to call this Brad Coleman guy  
7 from PGI, he's trying -- from Blackstone, he wants  
8 us to buy from PGI, we don't know what to do.

9 I said well, you need to buy from the  
10 lowest cost producer. If that's not Pronamics, you  
11 shouldn't do it I mean because -- but I also knew he  
12 couldn't get there, we didn't have no overhead.  
13 Long story short Insight called me and said we've  
14 got to do something here, we can't lose the  
15 Blackstone relationship. But Brad Coleman from  
16 Blackstone forced my exit to the Board. Now, what  
17 Victor Vescovo said is look, we're going to play  
18 this game, we want to put you back in the CEO role  
19 when we go to sale because at that point we're close  
20 enough that we can -- you and Brad can work it out  
21 if he thinks he's going to get a return.

22 My comment was let's get there and see how  
23 that works. I was great with Peter, didn't have a  
24 problem with Peter at all. Peter came in  
25 immediately. Travis Stephenson can attest to this

Harry Smith

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1       one, about 30 days in he calls me in and goes  
2       Insight's made a massive mistake buying this  
3       company. I said, really.

4               He said, they've made a massive mistake, I  
5       want to scare the shit out of him - excuse me, what  
6       he told me - and get them out. They said I'm going  
7       to talk them in to taking a loss. I said, Peter,  
8       that's a mistake. I said, you know, we're scaling.  
9       So, Peter had never run a company probably with more  
10      than 100 employees. I said, Peter, I think that's  
11      incorrect from a valuation standpoint. You know, I  
12      saw it where it was going.

13             He was struggling, the CFO Scott Brown  
14      actually called Insight and the Board and called for  
15      his termination. His exact words was he can't do  
16      this, he can't lead us, he's in over his head. I  
17      stepped in, calmed all that down, went to Costa Rica  
18      fishing. Victor and Brad called me. I was over  
19      there and we had a three-hour phone call where they  
20      put a tremendous amount of pressure on me to come  
21      back as the Managing Director of Flanders. I pushed  
22      against it. I fought against. And long story  
23      short, I went back as a Managing Director with Peter  
24      reporting to me.

25             Q. Now, explain that dynamic because at that

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1 point is Peter the CE --

2 A. Peter was the CEO and I was just a Board  
3 member.

4 Q. But you were called a Managing Director?

5 A. They called me back as the Managing  
6 Director. We still had this dynamic with Brad  
7 Coleman at Blackstone. So, right -- and

8 Q. So, you couldn't officially be --

9 A. You know, look, I could have sued  
10 Blackstone coming and going and I had all the facts  
11 down in detail. Because as soon as Brad Coleman  
12 forced Flanders to move the media business back to  
13 PGI they sold the business. So, I mean they were  
14 trying to run revenues up on Flanders and Brad  
15 Coleman was using their ownership structure and its  
16 overall strength in that industry to pressure  
17 Flanders to do.

18 It was pretty grotesque and Insight was  
19 really worried about it because they, you know --  
20 and I said guys, let's just keep working. Right.  
21 But I came back as a Managing Director, basically  
22 took over. Peter the first -- the first day back in  
23 Peter came to me and said would you buy the company  
24 back if I talked Ted into taking a \$50 million loss.  
25 And I said no. He said can talk him into short

Harry Smith

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1 selling this company back to you, we've made a  
2 mistake.

3 At the same time Insight had a company  
4 called EMES, that's its public trader ticker, okay.  
5 It was a sand play and it was trading at  
6 approximately \$140 a share. In that same  
7 conversation Peter Jones looked at me and said I'm  
8 on the Board over there, and this thing's an  
9 operational disaster, and Insight's looking for a  
10 win anywhere they can get it. This thing, you know,  
11 we're going to get in trouble because of the  
12 valuation of this stock. And I was like Peter, I  
13 ain't got nothing to do with that. I said I want to  
14 help Insight exit.

15 So, that kind of continued to -- it was  
16 just constant every day. At the same time when I  
17 came back, you know, I became under a tremendous  
18 attack from a small group of employees that did not  
19 want me to reenter the space, right? So, you know,  
20 I came back, I was pretty strong leader. I was  
21 looking, you know, where I could drive. I cut  
22 benefits pretty quickly trying to drive EBITDA. And  
23 I came under a pretty vicious attack.

24 Case in point was the Beaufort Observer,  
25 you know, wrote a scathing piece on me that had all

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1 kinds of context written into it. I didn't respond  
2 to it at all and they actually contacted me, called  
3 me said, are you going to respond to this. I said,  
4 no, I understand but it's all incorrect. He said,  
5 can I come to talk to you and I said, sure.

6 He came sat down, we gave him the fact,  
7 Brad gave him all the Board minutes everything we'd  
8 done on Pronamics everything, investment, what was  
9 going on with Peter. We put all the facts out  
10 there, he wrote a full redaction and apology. He  
11 also in that thing said there's four or five people  
12 that are Flanders that are writing all this stuff.  
13 And I said, I understand.

14 At the same time, you know, I had hacked  
15 email issues that, you know, because I was going in  
16 my personal email. So, there was a personal attack  
17 within the company in a small group. But it put a  
18 lot of pressure on me, you know, at home and  
19 everything else. Now, I understood it and I told  
20 Insight I understood it. And, you know, I actually  
21 sent some emails to Insight asking specific people  
22 to stop writing because we knew who they were. I  
23 didn't fire them, but we knew who they were.

24 And so, you know, I endeared a very  
25 personal attack when I came back as managing

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1 director from a small group of people both internal  
2 and external. And so, I was dealing with all of  
3 that at the same time. And that's culminated the  
4 final exit was Peter Jones asking to buy the company  
5 back. The other thing that happened when I came  
6 back as managing director was Insight asked me to  
7 sign the bank line. So, the bank came in with Scott  
8 Brown and I, we were trying to renew a current bank  
9 line that we had. And the bank said we're not going  
10 to renew it because you're too leveraged. We will  
11 renew it if Harry signs a personal guarantee.

12 I mean, I had tons of cash, big balance  
13 sheet. Insight got me on the phone and said we need  
14 you to sign this personal guarantee. I said, guys,  
15 I'm a minority shareholder and this -- you got  
16 this -- so that was the dynamic. They were trying  
17 to force me to sign a personal guarantee with the  
18 bank which is one of the reasons that I sold the  
19 company.

20 So, I just said, that's it, it's time.  
21 You know, I've got to go. And I had sold the media  
22 plant to SWM, a publicly traded company and sold the  
23 glass plant to Flanders and exited. So, you know,  
24 went to the Board, brought me back as managing  
25 director. I don't remember the compensation. It

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1 was a crazy number they paid me to come back. You  
2 can go dig it up, they've got it I'm sure. They  
3 paid me an enormous amount of money to come back and  
4 threw everything I wanted at me. I mean I could --  
5 whatever I wanted they said yeah.

6 And so, I stepped back in running it, the  
7 dynamics were just incredible. There was two  
8 different camps. So, you had the camp that Peter  
9 developed when he came in because he had his own  
10 guys. So, you know, my guys were over here and all  
11 the sudden we went from one organization that was,  
12 you know, a North Carolina based driven company to,  
13 you know, we had this camp that didn't want Harry  
14 back, right?

15 So, we had hired Nevin Caldwell, who'd  
16 been unemployed for a significant of time as a chief  
17 operating officer. We had hired Ron Shriver who had  
18 been unemployed for a significant period of time,  
19 you know. So, we had this group of people that had  
20 gotten into a significant position of power. We're  
21 looking at an LTIC and you had that dynamic.

22 I gave it the best run I could. I had  
23 already sold Pronamics, that transaction was done.  
24 Insight, Flanders Corporation bought the glass  
25 plant, I'd sold that. I came back and I gave it

Harry Smith

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1 everything I could and it just wouldn't work. So,  
2 you know, that precipitated the exit. And when I  
3 exited, you know, I think I left -- if you would  
4 count the valuation of what the shares that I short  
5 sold for and my long incentive compensation plan, I  
6 think you could quantify seven to \$8 million that I  
7 gave up to be able to exit the company without  
8 creating any angst.

9 And I exited very quietly. I continued to  
10 work with Insight with customers. I went to Home  
11 Depot I think twice on my own accord, my own ticket,  
12 and continued to say, you know, stay with these  
13 guys, work with them. Insight called me once a  
14 week. Peter Jones, you know, came to my son's  
15 football game to get advice. One of the things that  
16 concerned Insight when I had finally decided I was  
17 going to exit because at some point you got to go --  
18 Home Depot actually flew in and met with me, Brad,  
19 and he told Brad if he exits, we've lost trust, I  
20 don't think you'll see a single source. And my  
21 advice to Insight was to exit.

22 My advice also when American Air was  
23 looking at my Insight was to make sure full  
24 disclosure on the fragility of the retail piece of  
25 business. Because I perceived it to be fragile and

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1 I thought that they should be aware of that. So,  
2 but I continued to help Insight and Peter, you know,  
3 for a significant period of time with customers,  
4 vendors. And, you know, and I think you could  
5 easily quantify that I gave up seven to \$8 million  
6 when I exited.

7 And I knew that. I mean I knew what my  
8 long term incentive compensation was worth. I knew  
9 my shares were worth a significant amount more. And  
10 I had done really well and I didn't want to exit  
11 with that approach. And I think Insight will tell  
12 you, you know, it was one of the most gracious  
13 things they've ever seen. My hope is it went to the  
14 employees. That was the request.

15 Q. When you began working for Flanders, did  
16 you get an employment agreement?

17 A. I had an employee agreement as the CEO  
18 with compensation, et cetera, yes.

19 Q. So, prior to becoming CEO do you recall  
20 ever having a written employment agreement?

21 A. I cannot recall.

22 Q. Do you believe that you had an employment  
23 agreement as soon as you took over the CEO position?

24 A. I did. I had a contractual agreement with  
25 the Board.

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1 Q. Do you know where that would be? Do you  
2 have a copy of that personally?

3 A. I can -- I can -- I can redact a copy.  
4 I'm sure Christian has got a copy, I'd be glad to  
5 provide it.

6 MR. GRAY: Kevin, can we get a copy of  
7 that?

8 MR. CEGLOWSKI: Uh-huh.

9 BY MR. GRAY:

10 Q. Do you know how many employment contracts  
11 you had with Flanders?

12 A. No idea.

13 Q. Mr. Smith, I'm going to hand you what I've  
14 marked as Exhibit 1. Do you recognize that  
15 document?

16 (Deposition Exhibit Number 1  
17 was marked for the record.)

18 A. I don't know if I per se recognize it but,  
19 you know, as -- as -- as such. I obviously am aware  
20 of it but I don't recognize it readily.

21 Q. If you'll turn to the next to the last  
22 page, page nine, is that your signature on that  
23 page?

24 A. Absolutely.

25 Q. And this document appears to be executed

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1 on or about May 16th, 2012; is that correct?

2 A. Correct.

3 Q. And the person that signed on behalf of  
4 Flanders was John Oakley who was signing as  
5 President and CFO.

6 A. And he was an officer.

7 Q. But you were his boss?

8 A. Correct. This would have been a Board  
9 supported document and a public document.

10 Q. This was a document that was prepared in  
11 anticipation of the company ultimately being sold;  
12 is that correct?

13 A. I don't -- I don't recall that per se.  
14 But that could very well be correct.

15 Q. If you'll look on the first page under the  
16 paragraph entitled employment, do you see where it  
17 indicates that was an employment agreement entered  
18 between Flanders and you that was dated March 18th,  
19 2012?

20 A. In the first paragraph?

21 Q. The paragraph entitled employment.

22 A. Oh, okay, yeah. Absolutely I see that.

23 Q. And do you know if that particular  
24 employment agreement was your first employment  
25 agreement or --

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1 A. I don't recall.

2 Q. Do you believe you may have a copy of that  
3 agreement?

4 A. I -- I would think that Christian would  
5 have a copy of that agreement. I also would think  
6 that there is copies in the files. I mean we left  
7 everything intact, so.

8 MR. GRAY: Could you give us a copy of  
9 that as well, Kevin?

10 MR. CEGLOWSKI: Yes.

11 MR. GRAY: And any other employment  
12 agreement that was executed prior to this Exhibit 1.

13 BY MR. GRAY:

14 Q. On the second page, Mr. Smith, do you see  
15 that there is non-competition and non-solicitation  
16 provision?

17 A. I do.

18 Q. Do you have any problem with that  
19 particular provision?

20 A. Not that I'm aware of. You know, my view  
21 on non-competes, you know, I never utilized non-  
22 competes in my entire history or career. I never  
23 intended to compete with Flanders. So, you know, my  
24 intent was to build and develop and grow a company  
25 that provided a tremendous amount of jobs in North

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1 Carolina primarily and to watch it grow and  
2 flourish.

3 So, you know, from that perspective I  
4 never had a problem signing one. I never utilized  
5 them. You know, I always thought if you build a  
6 harmonious organization, people don't leave. But I  
7 don't see why I would have a reason with this at  
8 all. Obviously I signed it.

9 Q. And do you have any reason to believe that  
10 the provision in paragraph number five entitled Non-  
11 competition and Non-solicitation is unreasonable?

12 MR. CEGLOWSKI: Objection, calls for a  
13 legal conclusion.

14 BY MR. GRAY:

15 Q. You can answer.

16 A. I have no idea, I mean, from a legal  
17 standpoint. But I mean I -- I didn't have a problem  
18 with it. And, you know, I -- I would not have  
19 gotten really legal advice at this point, you know.  
20 I utilized Christian toward the end, but I wouldn't  
21 have gotten any legal advice at this point.

22 Q. And when you're referring to Christian,  
23 you're referring to --

24 A. Porter.

25 Q. -- Christian Porter of Colombo Kitchen in

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1        Greenville?

2            A.    Yes, sir.

3            Q.    So, it's your belief that you signed this  
4        document without consulting legal counsel?

5            A.    Absolutely.

6            Q.    But as far as you were concerned you  
7        didn't have a -- you did not have a problem with  
8        this particular --

9            A.    No.

10          Q.    -- non-competition and non-solicitation  
11        provision?

12          A.    No, none at all.

13          Q.    Mr. Smith, you've just been handed what  
14        I've marked as Exhibit 2, do you recognize that  
15        agreement?

16                            (Deposition Exhibit Number 2  
17                            was marked for the record.)

18          A.    I do recognize the agreement.

19          Q.    And on the last page, page eight, did you  
20        sign that agreement?

21          A.    I did.

22          Q.    What is the date that you signed it?

23          A.    July 1st, 2014.

24          Q.    And on the first page it indicates that  
25        your employment with Flanders, and it specifically

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1 refers to the document we looked at earlier, Exhibit  
2 1, which was your employment agreement, it indicates  
3 that that is ending as of July 1, 2014; is that  
4 correct?

5 A. That would be correct.

6 Q. Can you explain how this document came  
7 about?

8 A. This is the document where I moved to the  
9 Board I'm assuming.

10 Q. I want to give you some time, take a look  
11 at it.

12 A. Yeah, this is a document where what I had  
13 explained earlier about meeting with Insight in  
14 Florida and them asking me to move to the Board and  
15 working with bringing in Peter Jones, who was a  
16 director at EMES. And to quote Ted Beneski that day  
17 he said Harry, he'll do to get us through. I said  
18 absolutely let's bring him in. I understood there  
19 was a massive dynamic between Blackstone and Brad  
20 Coleman and myself.

21 I also understood that Insight needed  
22 Blackstone as a further partner from a private  
23 equity standpoint. I did not understand the PGI  
24 dynamic at Blackstone yet but I quickly understood  
25 it. And so, you know, I agreed to move to the Board

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1 and continue to support the company in a Board  
2 position and it was a very healthy and positive  
3 transition to the Board of Directors.

4 Q. And I think as you mentioned, the Board of  
5 Directors that's on page two, paragraph number five?

6 A. Correct.

7 Q. And it indicates that you would begin  
8 serving as the Vice Chairman of the Board; is that  
9 correct?

10 A. Correct.

11 Q. And it sets out what your compensation  
12 would be as the Vice Chair of the Board?

13 A. Correct.

14 Q. Was that an increase from what you were  
15 receiving as a -- being just a general of the Board?

16 A. Well, I mean I went from CEO to this  
17 position. So, I mean I took a dramatic cut in  
18 compensation to -- to move to this position. I  
19 actually when we got this agreement I told them I  
20 was fine with zero compensation to go to the Board  
21 and they wanted to continue to compensate me. So,  
22 that was their decision.

23 Q. They provided you with severance benefits  
24 in paragraph two?

25 A. Uh-huh.

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1 Q. Is that correct?

2 A. Yeah, whatever this agreement says is  
3 correct.

4 Q. And they gave you a bonus for 2014 or  
5 agreed to pay a bonus for 2014 even though you would  
6 not be eligible for one since your employment was  
7 ending; is that correct?

8 A. That's correct. I got a prorata share of  
9 the annualized year is what it says. As I remember,  
10 that's what happened.

11 Q. And you've been talking about LTIC, which  
12 is long term incentive compensation?

13 A. Yes, sir.

14 Q. And in paragraph number four on page two  
15 they increased your vested percentage from 20 to 30  
16 percent; is that correct?

17 A. That's correct, and that is the piece that  
18 I voluntarily -- at my request asked to go back to  
19 the company when I exited. The final exit I  
20 requested that my LTIC, which I was 100 percent  
21 vested for and legally mine, that I think at the  
22 exit to Daikin would have been probably \$8 million  
23 or seven, you can quantify. I voluntarily gave that  
24 back to the employees of Flanders Corporation in my  
25 exit.

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1           Q.    In paragraph six it sets out payments that  
2           were owed to the company by Pronamic and Oak Ridge  
3           and gave a time frame for that to be paid?

4           A.    Uh-huh.   Uh-huh.

5           Q.    Is that correct?

6           A.    Yes, sir.

7           Q.    And we haven't talked -- we've talked  
8           about Pronamic, we haven't talked about Oak Ridge.

9           A.    Yeah.

10          Q.    Just tell me real quick.

11          A.    Sure.   Yeah, Oak Ridge -- Insight came to  
12          us early on and, you know, we had an internal  
13          machine shop with -- where we machined all our own  
14          parts internally.   And one of their first requests  
15          is that we exit the machine shop business and  
16          procure the parts.   And so, Kevin Boyd, who had ran  
17          the machine shop and was a key and integral part  
18          player, called me and said, look, these are 20-year  
19          guys, 25-year guys, is there anything we can do.

20                And he said -- I said, you know, let me  
21          talk to Brad.   I called Brad and I said, look, you  
22          know, we hate to send these people home, they're  
23          eastern North Carolina, and they've been with us  
24          and, you know, part of this deal was, you know,  
25          we're going to grow, not hurt.   And I said, you

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1 know, what can we do. He called me back and said,  
2 look, you know, if you guys would like to buy the  
3 assets and hire those employers, we would work out  
4 an agreement where you guys could open a business.

5 We would still procure those parts at a  
6 competitive price which means you'd get more bids,  
7 but that would be an opportunity, that's the only  
8 thing we can do. And he said, by the way, that'd be  
9 a big win for us because we don't know if we could  
10 sell the equipment, which was fair. We went and got  
11 an arm's length valuation on all the equipment and  
12 we entered into an agreement to buy the equipment  
13 and we also entered into an agreement with the  
14 company with Insight managing that process on where  
15 we got first right of refusal on machine work within  
16 the company.

17 And as a part of that process Kevin had  
18 developed an automation program, two different types  
19 of products called Pac and C-Pac, which took out a  
20 lot of the labor, and he had developed it in-house.  
21 And they also driven by Brad Buser and Eliot Kerlin  
22 wanted Oak Ridge to build I think six of those  
23 machines. So, that is what started Oak Ridge. You  
24 know, I went in with Kevin 50/50 and it was Kevin's  
25 venture.

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1 Kevin now owns it 100 percent. So, we  
2 went and bought a building, put him in it, hired all  
3 the employees, nobody lost their job, and we put  
4 them in business. I covered all the capital losses.  
5 We had a capital loss the first two or three years  
6 where we lost, you know, money and all that's of  
7 record as well. I covered the losses until Kevin  
8 got stabilized and then I gave Kevin the business at  
9 no consideration.

10 So, Oak Ridge is still performing today.  
11 You know, one of the points of contention that we  
12 had talked about before was immediately when we  
13 doing -- Oak Ridge was doing a significant amount of  
14 business with Flanders and Insight was also  
15 contacted Kevin and said we want you to do business  
16 with our other companies. You've done a really good  
17 job, you've built every single piece of equipment in  
18 the company.

19 As soon as Daikin took over the POs  
20 stopped and communication to Flanders was we've been  
21 given -- and need not to do business with you. So,  
22 Kevin didn't understand it. Kevin tried to contact  
23 Howard Campbell, who as I understand it was  
24 terminated by Phil Whitaker, that's what we were  
25 told. And, you know, the word to the corporation is

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1 we're not allowed to buy from you.

2 Kevin reached out, sent multiple emails,  
3 said can I help, I want to help. It was not  
4 antagonistical, he had a great relationship with  
5 Insight working in the plants all the time. And he  
6 lost a significant amount of business day one that  
7 Daikin took over and we never understood.

8 And then we started getting feedback.  
9 Kevin had also built the glass plant, which was  
10 directly across the street from Oak Ridge, I mean  
11 they're across the street from each other. He  
12 designed it, built it, bought equipment and  
13 immediately as well because, you know, that was part  
14 of it. Insight said we want -- that business  
15 stopped as well.

16 And as well, you know, there was comments  
17 coming out right, wrong, or indifferent that were  
18 pretty derogatory. But there was -- never should  
19 have -- I mean Kevin never did anything in any way,  
20 shape, form, or fashion to be retaliated like that.  
21 And I mean it -- the business stopped immediately.  
22 And this was a process where we saved jobs in  
23 eastern North Carolina, made a significant  
24 investment in the east, and bought an empty  
25 building.

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1                   And look, that business is flourishing  
2           today and providing a lot of jobs in the east. And  
3           I've got to tell you when -- when Phil Whitaker who  
4           said that he'd made a decision not to do that, and  
5           Kevin sent multiple emails said just let me help you  
6           and he could have helped him dramatically, he really  
7           harmed eastern North Carolina and I injected a lot  
8           of capital to cover Oak Ridge as Kevin developed  
9           other customers. So, that is how Oak Ridge was  
10          formed and it's flourishing and doing really well  
11          today.

12                Q.    There's also a provision in here about the  
13          company would assist you in selling Pronamic?

14                A.    That's correct, uh-huh. So, I had  
15          basically at that point said, you know, guys, I was  
16          happy to make this investment that you all agreed.  
17          I've made a mistake, you know, I put a lot of  
18          capital at work here and at this point I was dealing  
19          with the Brad Coleman PGI issue. And I said, you  
20          know, I'm -- I'm going to exit and they said, well,  
21          we don't want to lose the glass plant because they  
22          needed that fiberglass.

23                    So, they did not assist me in any way,  
24          shape, form, or fashion. I sold the media plant to  
25          SWM DelStar and exited the Wilson plant in one

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1 transaction. And Brad said, we want to buy the  
2 fiberglass plant. And I said, that's fine because,  
3 you know, they didn't want to lose control of it  
4 because when I built the fiberglass plant, Superior  
5 Fiber, the only qualified vendor that made media  
6 that we could buy from, had moved their biggest  
7 plant to Mexico.

8 And as I had just started getting --  
9 because I had said, they're going to fail, won't  
10 work because of humidity conditions, they shut that  
11 plant down. So, you know, Insight immediately came  
12 and said, my God, you were right, you know, and it  
13 became a big part of I think what Daikin wanted as  
14 well was that fiberglass plant. It was a big  
15 bearing interest for us but they bought it and we're  
16 happy to produce the records. I lost money on the  
17 transaction. So --

18 Q. There was also a provision about exclusive  
19 aircraft dry lease?

20 A. Yeah, I mean I had the jet that I had  
21 leased to the company that I owed personally. And  
22 at that point in time I was trying to unwind  
23 everything and they were trying to unwind  
24 everything, so.

25 Q. And then in paragraph 11 it goes back and

1 reiterates going back to Exhibit 1, the non-  
2 competition and non-solicitation, and says that it  
3 will remain in effect for a period of two years  
4 after the separation date; is that correct?

5 A. That is correct.

6 Q. Now, did you have a lawyer review this  
7 document?

8 A. I think at that time, Ken, I probably had  
9 Christian involved somewhat. But there was still  
10 a lot of trust. I mean there was some angst there  
11 but -- and on the dry lease, and I think the  
12 documents will show that, I actually voluntarily  
13 paid back \$260,000 that I didn't have to because I  
14 was going to keep the plane and they had just made a  
15 big capital investment in one of the engines and I  
16 voluntarily paid that back, too.

17 So, I was trying to go above and beyond.  
18 But, you know, you've got to keep in mind at that  
19 time, you know, I had no intent, desire to go back  
20 in the air filtration business. My desire through  
21 this whole process was to watch Flanders flourish.

22 And even though there was some contention  
23 between myself and Insight, it wasn't unhealthy, you  
24 know. Those guys knew it all the time. You know,  
25 the company had been good. I was trying to do

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1 everything I could, while at the same time being  
2 under a pretty big assault internally from a small  
3 group.

4 And, again, Beaufort Observer, you know,  
5 redacted the entire document. And -- and to exit.  
6 So I had no desire to go into air filtration  
7 business in any way, shape, form, or fashion, you  
8 know, until I was personally attacked, defamed, you  
9 know, with the customer base, the vendor base and  
10 personal attacks taken against two companies I own  
11 and actions were taken that were never explained to  
12 us.

13 So, that is why we're sitting here today.  
14 So, from this perspective I didn't have a problem  
15 with that. I never intended to get back into air  
16 infiltration base. And by the way can't tell you  
17 I'm still going to go back. So, you know, my goal  
18 today based on the email I sent you was I would love  
19 to see them flourish. I've offered that for free.  
20 By the way, I did happen carry them to Home Depot.  
21 So, you don't go read emails from email, you go see  
22 them, right? If Home Depot finds out that they went  
23 through their emails, that account's gone tomorrow.  
24 And by the way, public record I can go tell them.

25 I haven't done that because that's not the

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1 kind of action I want to take, right? So, when the  
2 CEO says I went and read Home Depot and your emails,  
3 right, and I did a Home Depot search of your emails,  
4 then -- then, you know, my advice to Phil would be  
5 Phil, let's go see them, let's not do that, let's  
6 fix the relationship. So, you know, that is how we  
7 ended up here today was -- was, you know, is how  
8 they went about the relationship of me. And by the  
9 way, when they sold the company, I reached out early  
10 on and offered to help.

11 MR. GRAY: Let's go off the record.  
12 (Off the record at 11:55 a.m. until 11:59 a.m.)

13

14 BY MR. GRAY:

15 Q. Mr. Smith, so at the time you executed  
16 this document on July 1, 2014 you were aware that  
17 there -- you know, you were obligated to comply with  
18 the provisions of the non-competition and non-  
19 solicitation agreement --

20 A. Yes, sir.

21 Q. -- that was initially set forth in Exhibit  
22 1?

23 A. Yes, sir.

24 Q. And reiterated in Exhibit 2?

25 A. Yes, sir.

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1 Q. And you did not have a problem with that  
2 particular provision?

3 A. Absolutely not.

4 MR. GRAY: Let's go off the record  
5 just for a moment.

6 (Off the record from 12:00 p.m. until 12:00 p.m.)

7 BY MR. GRAY:

8 Q. Mr. Smith, I'm handing you what I've  
9 marked as Exhibit 3, do you recognize that document?

10 (Deposition Exhibit Number 3  
11 was marked for the record.)

12 A. I do.

13 Q. And did you sign that document on the  
14 third page?

15 A. I did.

16 Q. And when did you sign it?

17 A. March 12th, 2015.

18 Q. Okay. Do you recall what brought about  
19 this particular document?

20 A. I do not.

21 Q. Do you know what the document was trying  
22 to accomplish?

23 A. I do not.

24 Q. Does it appear that it's amending the  
25 confidential separation agreement, which we

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1 previously marked as Exhibit 2?

2 A. Yeah, this is when they were increasing my  
3 LTIC. And the intent here is -- this is when they  
4 were getting me back to run the company, right? So,  
5 they -- they gave me a significant increase in the  
6 long term incentive compensation plan to come back  
7 and take over. So, this is when I went from CEO to  
8 the Board and then I actually came back as managing  
9 director of the company. So, this would be the  
10 process where they -- they increased my LTIC in an  
11 attempt to financially compensate me for coming  
12 back.

13 Q. How long were you Managing Director?

14 A. I don't recall. You know, it went pretty  
15 quick in the fact that, you know, we -- we had a  
16 transaction where I sold the media plant to SWM,  
17 they bought the glass plant and the Pronamics  
18 transaction was done. They talked me into coming  
19 back as the Managing Director. I was pretty happy  
20 on the Board and would have been there through the  
21 entirety just as a Board member. When I came back,  
22 you know, it was -- it was pretty tough. I can tell  
23 you to battle they asked me to sign a personal  
24 guarantee, all the stuff we went through. And then,  
25 you know, it just didn't work. So, I exited at some

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1 time period after that, 30 to 45 days.

2 Q. Let me ask you this. During the time  
3 period when you had resigned as part of the  
4 confidential separation agreement at that point you  
5 became Vice Chair of the Board.

6 A. Uh-huh.

7 Q. And before the time in which you were  
8 Managing Director, okay, have we got that time  
9 period in your mind?

10 A. Uh-huh. Yes.

11 Q. And I want to know just briefly what your  
12 role was on the everyday basis. Were you going to  
13 the plant or were you just truly acting as a Board  
14 member?

15 A. I really was a Board member. I helped  
16 Peter. He called me daily. I still talked to  
17 customers for them. So, I managed the key  
18 relationships for them, just phone calls. I was  
19 still there so I think that was a big comfort factor  
20 for --

21 Q. How often were you going to the plant?

22 A. I came in probably two days a week, three  
23 days a week I think.

24 Q. And then at the point you became the  
25 Managing Director, I assume your involvement was

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1 more.

2 A. Six days a week.

3 Q. Right.

4 A. So, we had a significant increase in raw  
5 materials when I exited. I came back and took that  
6 on. I came back on and tried to calm and quell the  
7 customer base because the competitors were  
8 attacking, right? We had -- we lost a couple key  
9 employees under Peter.

10 Q. So, the bottom line is you were full time  
11 and --

12 A. Absolutely, back in it to win it.

13 Q. And in the second -- on the second page it  
14 amends the Board of Directors from Exhibit 2 and  
15 appears to give you additional payment  
16 opportunities.

17 A. Yes, they -- they -- I mean it's pretty  
18 evident they threw a bunch of LTIC at me and a bunch  
19 of money to get me to come back and run the company.  
20 This was the mistake.

21 Q. And when you say this, you were referring  
22 to Exhibit 3 and the concept behind it --

23 A. Coming back.

24 Q. -- coming back.

25 A. You know, it just never works, right? And

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1 look, I came under a big assault, you know, as you  
2 would think because I was coming back in to undo  
3 what Peter had done pretty quickly with people,  
4 place, and things. So, and that's what they had  
5 asked me to do.

6 MR. GRAY: Let's go off the record.  
7 (Off the record from 12:02 p.m. until 12:12 p.m.)

8 BY MR. GRAY:

9 Q. Mr. Smith, I'm going to show you what I've  
10 marked as Exhibit 4, have you seen that document  
11 before?

12 (Deposition Exhibit Number 4  
13 was marked for the record.)

14 A. I have.

15 Q. And what is it?

16 A. It's the Asset Purchase Agreement between  
17 Pronamics and Flanders Solutions and Blue Goose,  
18 which was the building.

19 Q. Did you have an ownership interest in Blue  
20 Goose?

21 A. Fifty percent as I recall. Blue Goose was  
22 a start up facility in Beaufort County approximately  
23 50,000 square feet that had been empty I think six,  
24 eight, or ten years and we occupied it, bought it  
25 from the county.

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1           Q.    Was this situation basically that Flanders  
2    was buying Pronamics and the property that was owned  
3    by Blue Goose?

4           A.    Yes.

5           Q.    Is it fair to say that you were  
6    extensively represented by counsel, legal counsel,  
7    in regard to this document?

8           A.    I don't know about extensively but I was  
9    represented by legal counsel, and that counsel would  
10   have been -- Ward and Smith represented me on the  
11   media plant sale and Christian Porter represented me  
12   on this sale because it was really internal, not a  
13   lot of negotiation. So, I didn't need as much help  
14   on the glass plant as I did the media plant when it  
15   come to legal.

16          Q.    The media plant, which you said Ward and  
17   Smith assisted you with, that's not part of this --

18          A.    No.

19          Q.    -- agreement?

20          A.    No, but it was part of Pronamics. So, two  
21   different sales. We sold the media business to SWM  
22   DelStar and --

23          Q.    And that's the transaction that Ward and  
24   Smith was involved in?

25          A.    Yes, sir.

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1 Q. But, again, that has nothing to do with  
2 Exhibit 4?

3 A. No, not at all.

4 Q. Beginning on page 20 and continuing on 22  
5 and into -- or continuing on 21 and into 22 are  
6 there restrictive covenants in this agreement?

7 A. Yes.

8 Q. Including non-competition and non-  
9 solicitation of customers and suppliers?

10 A. Yes, sir, the glass plant, correct.

11 Q. And non-solicitation of employees?

12 A. Correct.

13 Q. Did you have any problem with this  
14 particular non-competition agreement and non-  
15 solicitation agreement?

16 A. No. On this, you know, this was a  
17 situation again where Pronamics actually had a  
18 tremendous amount of leverage on Flanders because  
19 they were the only suppliers at the time. So, and  
20 we held prices and I think that was a big concern,  
21 because actually I had the fluidness of being able  
22 to do that. And so, we held prices and again did  
23 the right thing.

24 So, you know, we took the asset value of  
25 the company and full disclosure and tried to do what

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1 was the right thing for Flanders Corporation. And I  
2 had no problem with it in any way, shape, form, or  
3 fashion and again had no intent or desire to  
4 compete. This transaction here was predicated in  
5 the benefit of the corporation and Insight and also  
6 ended up being a tremendous part of their gain. A  
7 very difficult manufacturing process.

8 Q. I think you just testified though that in  
9 regard to this transaction Pronamics, which you were  
10 an owner of, had significant leverage against the  
11 company?

12 A. Well, at that time, you know, we were the  
13 only raw material supplier on glass. The reason we  
14 started it, you know, we had a catastrophic supply  
15 chain issue with Superior, who was our single source  
16 supplier for fiberglass which was a significant  
17 portion of Flanders' sales and still is today. And  
18 so, that is how we started the operation. And we  
19 started with just four drums and Superior continued  
20 to fail, we continued to ramp up.

21 Q. But the question is you had a good bit of  
22 leverage?

23 A. Absolutely.

24 Q. And this document was negotiated?

25 A. It wasn't any negotiation here. I mean I

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1 basically sat down with Insight and showed them what  
2 my investment was and happy to produce records. And  
3 there was no gain in any way, shape, form, or  
4 fashion on the building or on a significant  
5 manufacturing start up. So, our intent here was to  
6 the right thing. We could have actually backed up  
7 and -- and leveraged prices probably 20, 30, 40  
8 percent and they'd had no choice. But we operated  
9 with utmost ethics and integrity.

10 Q. And I think what you just testified to  
11 when you said you could have leveraged prices even  
12 more --

13 A. Yes.

14 Q. -- in other words, you could have driven  
15 even a harder deal or a better deal for yourself.

16 A. Yes. I mean, you know, at this point I  
17 mean, you know, probably from a capitalistic  
18 standpoint it would have been better for me to just  
19 walk in and resign. You know, I had built an asset  
20 that was in very high demand and the only other  
21 source was having significant troubles, had lost  
22 their Mexico operation and had supply chain issues.  
23 And we had a significant amount of demand so we had  
24 customers calling us.

25 And so, you know, I could have exited at

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1       this point and just, you know, owned this asset and  
2       what we had thought would be -- you know, we  
3       anticipated being a significant performer. But what  
4       we did was Insight wanted to control of the glass  
5       plant, did not want us to sell it to another party.  
6       And so, we did not go out -- we had people that  
7       wanted to buy the asset and we did not sit down with  
8       them. We basically did it at par value; building,  
9       plant, and equipment exactly what we had in it.

10           Q.    Do you recall if Mr. Porter was involved  
11       in any of the negotiations?

12           A.    I think Christian was involved in the  
13       legalese of the contract. But I mean there was  
14       no -- no negotiation, I didn't negotiate. I mean we  
15       sat down and they basically took the asset. You  
16       know, we basically gave it to them in the benefit of  
17       the company.

18                   It's my opinion and I think -- I think  
19       it's proven out I think I left -- I don't know what  
20       the value was based on the complicated build out of  
21       this. But I will tell you when I did that, I think  
22       I gave up probably eight, ten, 12, \$15 million in  
23       what this asset's actually worth in the market.  
24       And we knew that then. I actually had that  
25       conversation with Brad. I said, you know, we want

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1 to do the right and we led with the right foot.  
2 But, you know, I will tell you that the valuation of  
3 that facility, the complicated manufacturing  
4 process, we left a significant amount of money on  
5 the table.

6 Q. I'm going to show you what I've marked as  
7 Exhibit 5, have you ever seen that?

8 (Deposition Exhibit Number 5  
9 was marked for the record.)

10 A. I don't recall it.

11 Q. Does it appear that you are copied on the  
12 email beginning at the middle of the page from  
13 Christian Porter?

14 A. Uh-huh.

15 Q. Yes or no?

16 A. Yes.

17 Q. And does the email from Mr. Porter  
18 indicate that he has spoken with you?

19 A. Yes.

20 Q. Does he indicate that there should be no  
21 problem with Mr. Corey signing a non-compete  
22 agreement related to fiberglass?

23 A. Correct.

24 Q. And does it also indicate that you and  
25 Kevin have no issue with a non-compete?

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1 A. Correct.

2 Q. And then it goes on later to talk about  
3 the Promissory Note and the request that Flanders  
4 guarantee the Note?

5 A. Yeah, and I don't recall what this was  
6 even about. All of what you said is correct, but I  
7 don't recall the dynamics of it.

8 Q. And does it also indicate that he's  
9 working on a red line and will be back to them  
10 tomorrow?

11 A. Correct.

12 Q. And it appears that -- do you know who it  
13 was sent to?

14 A. It appears to be sent to Ryan McGary,  
15 which is a AAF legal counsel.

16 Q. And also to Greg Schmitt?

17 A. Uh-huh. I don't know who Greg was.

18 Q. Do you know who Tyler Cotton?

19 A. I have no idea. And this may be where  
20 Pronamics was doing business with American Air, but  
21 I really don't recall what the dynamics of this was.

22 Q. Could Greg Schmitt be the lawyer for --

23 A. I don't -- I don't recall.

24 Q. Okay. But would this --

25 A. Christian would have been our attorney.

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1 Q. Would this have helped -- does this help  
2 refresh your recollection as to any back and forth or  
3 any discussion about the terms of the document  
4 that's in front of you, Exhibit 4?

5 A. No.

6 MR. CEGLOWSKI: Don't testify anything you  
7 and Christian discussed.

8 THE WITNESS: Okay. Not -- not that I am  
9 aware of. I don't know what this ties to nor do I  
10 remember.

11 BY MR. GRAY:

12 Q. In regard to the non-compete that's in  
13 Exhibit 4 that we looked at earlier do you have any  
14 reason to challenge that non-compete?

15 A. No.

16 Q. Do you have any reason to believe that any  
17 part of the non-compete or the non-solicitation is  
18 over broad?

19 MR. CEGLOWSKI: Objection, calls for a  
20 legal conclusion. You can answer the question.

21 THE WITNESS: You know, my conversations  
22 on the non-competes repeatedly were to Brad Buser,  
23 who was my interaction between Insight. This was  
24 the conversation I had with him numerous times on  
25 non-competes. You know, up to and including five-

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1 year non-competes was Brad, I have no desire to  
2 compete. As long as I'm treated with respect and  
3 dignity and the company continues to move forward,  
4 you'll never see me in this space again.

5 I also had the conversation with Brad on  
6 several occasions that North Carolina doesn't  
7 recognize a five-year non-compete and he and I  
8 actually joked about it, right? Brad also I think  
9 was under some pressure to try to get a signature at  
10 my level and my degree of expertise in the space,  
11 you know, in that process.

12 So, but, you know, those were the  
13 conversations I had in generality, you know, I did  
14 not have a problem in any way, shape, form, or  
15 fashion, Ken. I never intended to compete. That  
16 was not my goal, never was my goal. So, and, you  
17 know, it was -- it was fairly jovial in that  
18 context.

19 Q. I'm handing you what's marked as Exhibit  
20 6, do you recognize that as a November 11, 2016  
21 letter to Phil Whitaker from your attorney?

22 (Deposition Exhibit Number 6  
23 was marked for the record.)

24 A. I do.

25 Q. And in the second paragraph does it refer

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1 to this February 20th, 2015 asset purchase agreement  
2 which we marked as Exhibit 4?

3 A. It does.

4 Q. And does it indicate that you agreed to  
5 certain restrictive covenants in conjunction with  
6 the sale of the glass plant, Pronamic?

7 A. Yes, sir.

8 Q. And does it indicate that you also do not  
9 challenge the enforceability of those covenants and  
10 intend to comply with them?

11 A. Yes, sir.

12 Q. So, is it fair to say in regard to the  
13 non-compete and the non-solicitation provisions in  
14 there you don't have any --

15 A. I have no desire to go back in that space.  
16 So, from that standpoint, you know, how -- do I view  
17 the non-competes congruently, I just have no desire  
18 to go back in that space. I will tell you that that  
19 non-compete, in my opinion, resembles the same non-  
20 compete on the air filtration side. Right. Two  
21 totally separate documents not involved in the  
22 transaction of business with no consideration or the  
23 overall scope.

24 So, if I desired to go back in the glass  
25 plant, I would be challenging that as well. I have

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1 no desire to go back in that space. So, you know,  
2 right now, you know, my only position is to protect  
3 my employees, vendors, and customers. It's not what  
4 I want to do. What I want to do is see American Air  
5 Flanders be successful.

6 So, you know, if -- if wanted to get back  
7 in the fiberglass business, I would challenging that  
8 congruently. That's just not a decision I want to  
9 make; therefore, I have no problem with it. I got  
10 zero consideration on the glass plant as well. I  
11 think I left eight to \$10 million on the table when  
12 I handed the asset back. The reason I handed the  
13 asset back was so the company could flourish. It's  
14 also one of the drivers I think of American Air's  
15 decision to buy Flanders to protect that, you know,  
16 that state-of-the-art manufacturing fiberglass  
17 plant.

18 And I think Insight made an enormous gain  
19 on the capital I put in, the time, energy, and  
20 effort that we took to build it and I got zero gain  
21 on that. In fact, I think if we were to take the  
22 numbers and really back them in, I probably lost  
23 money. I can't attest to that today but I think if  
24 you look at the capital I put in versus how we did  
25 it -- and at that time I was trying to do everything

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1 I could --

2 Q. Let me make sure I'm clear on this now.

3 In regard to this asset purchase agreement are you  
4 saying you believe you may have lost money?

5 A. I think that if you really drilled all the  
6 way down to the pennies -- you know, the goal here  
7 was just to give it them exactly what I had in it so  
8 we would hand them the asset. But, you know, it  
9 would not surprise me if you went back to the money  
10 I had put in the building and whatever, that there  
11 was some dollars that I didn't recoup because, you  
12 know, there was a lot of dollars floating. I was  
13 guaranteeing all of it, right?

14 Q. But you didn't have to. Let's assume that  
15 you did lose money on it, you didn't have to, did  
16 you?

17 A. No, I didn't. I mean I think it's the  
18 point that I just didn't drill all the way down to  
19 the pennies, Ken. My intent with the glass plant  
20 was to do the right thing. Keep in mind that  
21 Superior had had a catastrophic failure, Flanders  
22 had to have the glass plant. So, they had to have  
23 this, you know, to maintain the company that it was.  
24 It's one of the most key raw materials suppliers.  
25 What I was trying to do here was do the right thing.

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1       So, I -- I mean it's my belief I could have said  
2       I'll take ten million for it and I would have got it  
3       because they needed it.

4               And by the way, this thing was built for  
5       Flanders. It was a -- this is a huge strategic  
6       piece of equipment. It's -- this is a big, big  
7       deal. I built it with all my money, all my time,  
8       energy, and effort and it is a state-of-the-art  
9       fiberglass manufacturing operation. And I will tell  
10      you if go back and look at Daikin's due diligence  
11      it's a key and critical reason they wrote the check  
12      they did was to get this asset. I gave the asset in  
13      trying to do the right thing as I did with the LTIC  
14      in trying to do the right thing. I had done really  
15      well at Flanders. My goal at this point was  
16      absolutely to operate beyond reproach.

17             Q.    You earlier testified that you had the  
18      leverage in this particular transaction?

19             A.    Absolutely believe I did.

20             Q.    And as you just testified I believe you  
21      said that you could have asked for \$10 million more  
22      than you did?

23             A.    I absolutely believe that's correct. I  
24      also, you know, could -- I mean this was the source  
25      that I could have went up 50 percent. You know, we

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1 never did -- and it goes back too to Kevin being  
2 attacked because Kevin was with me in this. And so,  
3 he said let's do the right thing. And so, I will  
4 tell you that, you know, we operated beyond  
5 reproach. And look, the other part of that is, you  
6 know, I wanted Insight to be successful. I wanted  
7 Flanders to be successful. At this point me taking  
8 this kind of action is tough to justify, right?

9 I mean I'd already, you know, and so I was  
10 trying to do everything I could to help the company,  
11 the employees, and Insight be successful. And I  
12 think you'll find out in Daikin's due diligence they  
13 wanted this and they wrote a check for it. And we  
14 knew what it was worth. I mean we built it  
15 internally with Oak Ridge with all those machine  
16 shop guys we talked about and it is state-of-the-  
17 art. And it's the only fiberglass plant that's been  
18 built in the country I think in 30 years.

19 So, it's a big -- big deal because they  
20 have -- the control raw material sources critical to  
21 the company. And we were happy to do it. I mean I  
22 -- you know, I think I could have made a significant  
23 gain -- and just let them have it. But I -- that's  
24 not what we wanted to do. And I don't want to go  
25 back in the fiberglass business. I mean, you know,

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1 I don't want to hurt Flanders, you know. I have no  
2 desire to do that in any way, shape, form, or  
3 fashion. I'm happy not to get back in the field.

4 Q. And you've explained why whatever you got  
5 out of this is what you got out of it.

6 A. There's no gain and we're happy to produce  
7 the records. There's no gain here.

8 Q. That was 100 percent your decision?

9 A. Absolutely. It's the same decision I use  
10 when I gave up the LTIC. I mean look at the  
11 contracts. I was 100 percent vested. I knew there  
12 was significant value there. You know, I was really  
13 trying to lead at that point, you know. And look,  
14 in full disclosure very emotional exit for me. I  
15 mean I had a company I built, a bunch of people that  
16 I had gotten really attached to, customers, vendors,  
17 employees. And so, this was a dynamic change in my  
18 life. At the same time I was coming under immense  
19 attacks within the company on a small group but, you  
20 know, look, right, wrong, or indifferent that stuff  
21 will bang you up, right?

22 And so, you know, I was -- at this point I  
23 was trying to do everything I could and that's also  
24 why I have such a great relationship with Insight  
25 today. Insight recognizes the value of what I did.

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1 And I will also tell you Insight recognizes the  
2 mistakes they made. But, you know, we -- we led  
3 right here and did the right thing. And I don't  
4 know what the number is but I -- I think it's eight,  
5 ten, 12, \$15 million we probably left on the table  
6 from a valuation standpoint. They can't run the  
7 company without this today.

8 Q. And when you said they can't run the  
9 company without that today, you're talking about --

10 A. Raw material supply fiberglass.

11 Q. -- the document that was sold to Flanders  
12 in Exhibit 4?

13 A. Right, the asset. Yeah, the plant.

14 Q. I'm handing you Exhibit 7, can you tell me  
15 what the purpose of that document is?

16 (Deposition Exhibit Number 7  
17 was marked for the record.)

18 A. I don't remember the purpose. I mean it  
19 appears to be, you know, where -- is this where they  
20 were paying off the loan.

21 Q. You signed it on the third page?

22 A. I did.

23 Q. And it does appear to be a statement of  
24 repayment and termination of the business loan  
25 agreement?

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1 A. Correct.

2 Q. And this business loan would have been the  
3 loan that you took out for Pronamics?

4 A. Yes, sir.

5 Q. And this would have been paid off as a  
6 result of the asset purchase agreement?

7 A. Yes, sir. And we're happy to get you all  
8 the accounting records on our -- our total  
9 investment and then could compare that just so you  
10 can put those in the records to show what we  
11 invested in it.

12 Q. I'm handing you what I have marked as  
13 Exhibit 8, do you recognize this as the Closing  
14 Certificate dated March 13, 2015 for the sale of  
15 Pronamics?

16 (Deposition Exhibit Number 8  
17 was marked for the record.)

18 A. Yes, sir.

19 Q. Do you know why it's done at that time as  
20 opposed to the February --

21 A. I don't -- I don't know if this is after  
22 we cleaned up the debt.

23 Q. -- 20th, 2015?

24 A. If it was after debt was cleaned up. I  
25 don't know why the disparity in the dates would be.

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1 Christian may could tell you that but I -- I have no  
2 idea there. My assumption is this is probably when  
3 they had had all the -- you know, they had taken the  
4 building so forth and so on. And you know we made a  
5 significant improvement in the building and we gave  
6 them that as well. But I don't know the disparity  
7 in the dates.

8 Q. I'm handing you what's been marked as  
9 Exhibit 9, do you recognize this as Seller  
10 Disclosure Schedules?

11 (Deposition Exhibit Number 9  
12 was marked for the record.)

13 A. Yes, sir.

14 Q. And does that relate to the sale of  
15 Pronamics?

16 A. It would be, yes.

17 Q. Is there a date on that?

18 A. I'll see if there's a date. Says -- well,  
19 see, these are -- these are employees as of a  
20 certain date. So, I think they took it out of the  
21 system. I don't know what date this was actually  
22 executed. I'm assuming it matched up with that but  
23 I don't know.

24 Q. And when you said you were assuming it  
25 matches up with that, you were referring to Exhibit

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1 8?

2 A. Yes, sir.

3 Q. Mr. Smith, I'm now going to hand you what  
4 I've marked as Exhibit 10. Do you recognize this as  
5 a Promissory Note dated March 13, 2015?

6 (Deposition Exhibit Number 10  
7 was marked for the record.)

8 A. I do.

9 Q. And what was the purpose of that document?

10 A. As I remember this was the -- this was the  
11 buy-out amount as I recall where they agreed to buy  
12 the business. I don't recall the specifics but I  
13 think that's the context of it, Ken. Yeah, this is  
14 where I -- I -- I -- they agreed to -- this is where  
15 they bought the business and we had a Promissory  
16 Note for \$3 million, approximately.

17 Q. I'm now going to hand you Exhibit 11,  
18 which appears to be a Manager's Certificate for  
19 Pronamics dated March 13th. Do you recognize that  
20 document?

21 (Deposition Exhibit Number 11  
22 was marked for the record.)

23 A. I don't recognize it but --

24 Q. Is it your signature on the second page  
25 and third page?

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1 A. It is.

2 Q. I've marked as Exhibit 12 a Manager's  
3 Certificate dated March 13, 2015 for Blue Goose,  
4 LLC.

5 (Deposition Exhibit Number 12  
6 was marked for the record.)

7 A. Uh-huh, the building. That would be  
8 correct.

9 Q. And that was also part of the --

10 A. Yes, sir.

11 Q. -- Pronamics sale?

12 A. Blue Goose is a building that occupied the  
13 fiberglass manufacturing plant.

14 Q. I hand you Exhibit 13, a letter agreement  
15 between Pronamic and its various sellers, Blue Goose  
16 and Flanders, is that right?

17 (Deposition Exhibit Number 13  
18 was marked for the record.)

19 A. That's correct.

20 Q. And it's dated March 13, 2015 as well?

21 A. Yes, sir.

22 Q. And did you sign that document?

23 A. I did.

24 Q. I'm now handing you Exhibit 14, does this  
25 also appear to be a letter agreement relating to

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1 incentive payments?

2 (Deposition Exhibit Number 14  
3 was marked for the record.)

4 A. Yes.

5 Q. And did you sign that document on March  
6 13, 2015 as well?

7 A. I did.

8 Q. I'm handing you a Lease Termination  
9 Agreement also dated March 13, 2015, do you  
10 recognize that document?

11 (Deposition Exhibit Number 15  
12 was marked for the record.)

13 A. I don't recognize it but I understand what  
14 it is and I executed it accordingly.

15 Q. Would that be where you were as a part of  
16 the transaction and, again, the transaction is the  
17 asset purchase agreement in Exhibit 4, is that where  
18 you would no longer be leasing the property and  
19 receiving rent?

20 A. Correct. So, it would have been an  
21 internal LLC that we -- that Pronamics wrote the  
22 rent check to us.

23 Q. I'm handing you what I've marked as  
24 Exhibit 16, do you recognize that as a City Economic  
25 Incentives Grant Agreement for project Blue Goose

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1       that's dated March 22nd, 2013?

2                               (Deposition Exhibit Number 16

3                               was marked for the record.)

4               A.    I don't recognize it but I understand what  
5       it is and I did execute it.

6               Q.    And just very briefly what was the purpose  
7       of that?

8               A.    Economic incentives is where, you know,  
9       create jobs and the county and state work with you  
10      accordingly. And in this case, you know, we had a  
11      criteria to create 54 full time positions of a five  
12      period of time. I think we were 100-plus pretty  
13      quick. So, we obviously met that.

14              Q.    I'm showing you what I've marked as  
15      Exhibit 17, does it appear to be a March 13, 2015  
16      Closing Certificate for Flanders Solutions, LLC?

17                               (Deposition Exhibit Number 17

18                               was marked for the record.)

19              A.    It does.

20              Q.    And is that also related to the Pronamics  
21      transaction?

22              A.    It would be, yes, sir.

23              Q.    As Exhibit 18 I've handed you a document  
24      entitled First Amendment to Purchase Agreement dated  
25      March 13, 2015. Do you know why there was an

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1 amendment to the purchase agreement at this time?

2 (Deposition Exhibit Number 18

3 was marked for the record.)

4 A. I don't recall.

5 Q. Did you sign it?

6 A. I'm sure I did. I did.

7 Q. Does it refer to certain assets that are  
8 excluded?

9 A. Yeah, this -- I mean I guess it's the  
10 ownership at ECN, which was the media plant separate  
11 that we had sold to SWM that was in the Pronamics  
12 umbrella. And this just I guess is where they  
13 amended -- they had taken out and revised it. I  
14 don't remember the details on it, Ken.

15 Q. Okay. As Exhibit 19 I'm handing you a  
16 document entitled Certification of Non-Foreign  
17 Status and Real Estate Reporting Information. Did  
18 you execute this document on or about March 12th,  
19 2015?

20 (Deposition Exhibit Number 19

21 was marked for the record.)

22 A. I did.

23 Q. As Exhibit 20 I'm handing you a document  
24 entitled Certification of Non-Foreign Status for  
25 Pronamic Industries. Did you execute this document

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1 on or about March 13, 2015?

2 (Deposition Exhibit Number 20  
3 was marked for the record.)

4 A. I did.

5 Q. As Exhibit 21 I'm handing you a Bill of  
6 Sale that appears to be dated March 13, 2015. Is  
7 that your signature on the second page?

8 (Deposition Exhibit Number 21  
9 was marked for the record.)

10 A. Yes.

11 Q. I'm handing you what I've marked as  
12 Exhibit 22. It appears to be a Loan Agreement dated  
13 March 22nd, 2013. Do you recognize this document?

14 (Deposition Exhibit Number 22  
15 was marked for the record.)

16 A. I do not. I think it's for the purchase  
17 of the building, but I don't recognize the document.

18 Q. Does it appear to be an agreement between  
19 Pronamic Industries, the County of Beaufort --

20 A. Yes.

21 Q. -- and Blue Goose?

22 A. Yeah. I would have known of the document  
23 for sure.

24 Q. And does it appear to be executed by Kevin  
25 Boyd, CEO --

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1 A. Correct.

2 Q. -- of Pronamics?

3 A. Correct. Yes, and I would have signed it  
4 if had been asked to. I don't remember the  
5 specifics of it but I was obviously aware of it.

6 Q. Mr. Smith, I'm going to hand you Exhibit  
7 23, which appears to be an Assignment and Assumption  
8 Agreement that's executed between Pronamics and  
9 Flanders. Did you sign that document?

10 (Deposition Exhibit Number 23  
11 was marked for the record.)

12 A. Yes, sir.

13 Q. And do you recognize it?

14 A. I don't recognize it but I did sign it and  
15 I would have been fully aware of it. This is  
16 basically where we, you know, let them just assume  
17 what debt we had when with no gain through the  
18 process.

19 Q. In other words, Flanders acquired the debt  
20 that Pronamics still owed --

21 A. Yes, sir.

22 Q. -- to the lender?

23 A. Yeah. Whatever the basis was we just gave  
24 them exactly that with no gain.

25 Q. And there was certainly some benefit to

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1 doing that for you, correct?

2 A. No, I took an enormous loss on that, yeah.  
3 So, you know, if you look at the valuation of the  
4 building would have been, we bought a concrete shell  
5 and then massive upfits. So, we brought tremendous  
6 value to the building. And on top of that, you  
7 know, we built a state-of-the-art manufacturing  
8 process that is in my opinion the number one  
9 fiberglass manufacturing operation in the world and  
10 we gave it at par value. I think I lost eight, ten  
11 to \$12 million in the process of trying to -- to  
12 move this asset to Flanders and Insight to put  
13 Flanders in a position to continue to win.

14 But, you know, we made a strategic  
15 decision to do the right thing here. At that time  
16 they were -- we had the supply chain in control.  
17 And record will show we did not mark up the material  
18 and we could have. And we also agreed when -- and  
19 Insight asked us could they buy the asset, we had  
20 multiple people wanting to talk to us about it. But  
21 we knew if we sold it outside of Insight, that that  
22 would put Flanders in a very bad position. So --

23 Q. But for Exhibit 23 though, you would have  
24 still owed money to the bank?

25 A. Yeah, but we wouldn't -- the asset was

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1       worth much more than this, right? So, if you took a  
2       look at the asset value of the building and  
3       equipment, the building was worth much more than  
4       this and the asset was much -- worth more than this.

5               I would call you to go probably take a  
6       look at Daikin's due diligence and understand what  
7       they put on valuation for here. I think I may have  
8       left as much as 20 or \$30 million on the table in  
9       this process. But I know I at least left eight or  
10      ten million. So, the building and the plant that we  
11      basically gave for consideration, which is what we  
12      owed, was worth significantly more. And Flanders  
13      had to have the asset. It wasn't a matter of them  
14      wanting it, they had to have it. And so, you know,  
15      we try to lead back there and -- and as a result  
16      Insight made a massive return on this.

17             Q.    I guess the point I'm trying to get to  
18      though is but for this document, Exhibit 23, if you  
19      had not assigned the debt to Flanders and Flanders  
20      had not agreed to assume that debt, then that would  
21      have ben debt that would have been owed by the  
22      owners of Pronamics.

23             A.    Well, we wouldn't have done the  
24      transaction. Right. So, I mean, you know, if you  
25      take a look at the transaction, you know, we had an

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1       asset they had to have. We also had an asset that  
2       multiple people were trying to buy from us. We  
3       never sat down and talked with anybody else. We sat  
4       down and said look, this is our basis, we know you  
5       need it. You know, Peter Jones even sat down with  
6       me and said listen, we know you can up 20, 30, 40  
7       percent, you know, what's your plans here because,  
8       you know, their EBITDA would have dropped.

9               So, you know, we could have picked up I  
10       don't remember the numbers, Ken, but probably 250 to  
11       300,000 a month in margin just by moving a price  
12       increase. They had to have it, right? The plants  
13       were built for it, the customers had demand for it.  
14       We never moved prices and when they said we want the  
15       asset, we sold it to them for exactly what we had in  
16       it. I think if you add the numbers, I probably lost  
17       some money. It wouldn't have been significant but  
18       we did not make a gain on this we could have.

19              Q.    Right. You could have.

20              A.    We could have had a significant gain. We  
21       could have sold this asset outside of Flanders and  
22       it would have crushed Flanders because at this time  
23       Superior had a catastrophic failure in Mexico.  
24       There was a massive shortage and Flanders needed  
25       this guaranteed supply chain. The customer base one

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1 of the biggest things that moved Flanders forward  
2 was the customer base knew that we had control of  
3 our own fiberglass supply chain. And Insight  
4 recognized that quickly.

5 Q. You could have sold it to an outside  
6 party --

7 A. Could have sold it Ken, and Ken, you could  
8 have just said hey guys, this is the price.

9 Q. And you could have sold it to Flanders for  
10 more?

11 A. I absolutely could have. Yeah, I feel  
12 very strongly about that. And I think Insight would  
13 agree with you on that.

14 Q. I'm going to show you what I've marked as  
15 Exhibit 24. Do you recognize this document?

16 (Deposition Exhibit Number 24  
17 was marked for the record.)

18 A. I don't recognize the document but I'm --  
19 I'm aware of what it is.

20 Q. What is it?

21 A. It's the Agreement of Purchase and Sale  
22 for the building, I think, which would have been the  
23 Blue Goose. Building that we bought in Beaufort  
24 County. And the reason we named it Blue Goose was  
25 because the building was painted blue and everybody

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1 in Beaufort County was calling it the Blue Goose,  
2 that the County had laid a bad egg.

3 Q. I hand you Exhibit 25, which appears to be  
4 a Subordination Agreement. Is this a document you  
5 would have seen as part of the Pronamics  
6 transaction?

7 (Deposition Exhibit Number 25  
8 was marked for the record.)

9 A. I don't recall the document but I feel  
10 confident absolutely that it would be.

11 Q. I'm handing you Exhibit 26, do you  
12 recognize this document?

13 (Deposition Exhibit Number 26  
14 was marked for the record.)

15 A. I'm familiar with the document. I mean I  
16 don't recognize it per se but I'm very familiar with  
17 it.

18 Q. Did you sign the document?

19 A. I did.

20 Q. And when did you sign it?

21 A. Would have been March 20th.

22 Q. So, this would have been about a week  
23 after a lot of these other documents that we just  
24 reviewed were signed?

25 A. Uh-huh. Uh-huh. Correct.

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1 Q. What brought about this document?

2 A. It was a, you know, the intent was that I  
3 was going to do everything I could to stay and work  
4 through the company and help them be successful.  
5 Insight, you know, wanted the glass plant and  
6 precipitated that and we got that transaction done.  
7 And it was a series of events that week that created  
8 a lot of angst. One was the request to sign a  
9 personal guarantee by the bank, which brought me  
10 some real angst. Two was Peter Jones again  
11 escalated to the offer to me to buy the company back  
12 at a discount and a significant discount.

13 He actually said, you know, what if we --  
14 as I recall, what if we -- it was 25 or 50 million  
15 would you be interested in buying the company back  
16 which I still think we made a mistake. So, we had  
17 that conversation. We still had personal things  
18 going on, you know, within the company. Again, a  
19 small group but, you know, a tremendous amount of  
20 the stress. You know, that week we had a meeting,  
21 you know, where we actually were lined up on two  
22 different sides of the table. It bothered me a lot.

23 You know, we had my guys on one side and  
24 Peter's team that he had put together on that side.  
25 It was just a tremendous amount of angst. And so,

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1       there was a -- there was a series of events that I  
2       just said this is not going to work. And so, Brad  
3       came down and, you know, he and I talked, a fairly  
4       emotional meeting. And their concern, of course,  
5       was customers, vendors, employees and, you know, I  
6       made the commitment that I would continue on.

7               I said, you know, I'll be right here, I'll  
8       advise you, I won't leave your side. I need to  
9       exit, it's not healthy for me, it's not healthy for  
10      my family, it's not healthy for the company. The  
11      dynamics are bad, the atmosphere is bad. I'm not  
12      going to sign a bank guarantee, you know. So, you  
13      know, you got to figure that out.

14             And, you know, and -- and I'm willing to  
15      do this, you know, in every effort possible to make  
16      sure that you guys win in a big way. And so, we  
17      went back and forth and they continued for about a  
18      24-hour period to try to convince me to stay in  
19      play. At that time there was a lot of angst between  
20      the CFO, Scott Brown, and Peter Jones. He had just  
21      in that same period called for Peter's termination,  
22      which is unprecedented. I stepped in the middle of  
23      that and worked through that.

24             My guys are starting to get just, you  
25      know, it was Peter, there was me, there was Insight,

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1       there was Blackstone. It was just a really bad  
2       dynamic. And so, you know, I sat down with Brad and  
3       said look, you know, I'd like to exit. I actually  
4       wanted to keep my 660 in because I felt like that  
5       was fair. I wanted my LTIC to go to the employees.  
6       And so I said I'd, you know, like to voluntarily  
7       give up my LTIC. I knew what it was worth. In  
8       fact, I think I told Brad I think it's worth six to  
9       \$8 million. I think the transaction proves it's  
10      worth more than that.

11               But -- and I said but I'd like to keep my  
12      investment because I've worked very hard to the  
13      company here. I think I'm due that return. Insight  
14      came back and basically said, Harry, if you want to  
15      exit, we want to get you completely out. You know,  
16      we'll be the single owner and, you know, we'll give  
17      you the 660 and that's it. I think they took  
18      advantage of me there.

19               But in the effort to try to do the right  
20      thing, you know, I agreed to that. I had the  
21      conversation with Brad that I didn't think it was  
22      fair. And so, I think at that time, you know, I  
23      just rose above it all. And, you know, I really  
24      exited gratuitously and I continued to help them a  
25      lot. So, I went to see Home Depot I think twice on

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1 my own accord, my own expenses. Didn't turn in  
2 expense. I talked to Peter. In fact, he came to  
3 one of my son's football games, the entire football  
4 game. I watched football. I gave him advice.

5 I continued to talk to the customer base,  
6 the vendor base, employees who called me and I'd say  
7 you're going to be great, keep forward, everything's  
8 good. Brad would call me often, I would give him  
9 advice. So, it was not -- I mean there was tension  
10 there as you can imagine to some degree. But I  
11 think both parties handled it really well. I've  
12 still got a very good relationship with Victor and  
13 Brad. And, you know, Brad subsequently exited  
14 Insight at the sale of Flanders and he's doing his  
15 own thing now.

16 And my intent the entire time was to see  
17 the company flourish and prosper and by the way as  
18 well as my guys, Travis and Kevin. I mean they  
19 really wanted Flanders, who we spent a big portion  
20 of our life, to do well. And so, that is -- that  
21 is -- and, you know, what you've got is you've got  
22 two totally separate transactions. I mean Brad --  
23 Brad will contest that and so will Victor. They  
24 bought the assets they wanted to. Had nothing to do  
25 with the sell of business in any way, shape, form,

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1 or fashion.

2 It was a series of events there from  
3 wanting me to sign a bank guarantee, you know, to a  
4 tremendous amount of angst. And the current sitting  
5 CEO trying to sell me the asset back and that was  
6 going all up and down the hallways. So, everybody  
7 was saying well, Harry's going to buy it back and  
8 Insight don't want it and, you know, I was getting  
9 that phone call. It was a very bad dynamic, Ken.  
10 And, you know, we really had two different sides of  
11 the tables. We had my guys and their guys.

12 And so, it was, you know -- you know,  
13 that's -- that's how it went down. And -- and look,  
14 I was pretty hard on Peter because of, you know,  
15 what I thought was a failure in leadership. And,  
16 you know, I'm a pretty direct guy on stuff like  
17 that. I wanted the company to perform. This is a  
18 guy that was telling everybody, you know, it was a  
19 mistake, shouldn't have done it. You know, he told  
20 myself and Travis on multiple occasions, you know,  
21 scare the you-know-what out of them and get out.  
22 So, it was just a pretty -- pretty bad deal.

23 And at the same time Insight was under a  
24 tremendous amount of pressure. So, you know, if you  
25 take a look at their performance, you know, they had

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1 a couple failures and there was a lot of pressure  
2 from their investors to get a return. And we had  
3 the Blackstone dynamic with Brad Coleman wanting a  
4 return. The other thing that was the final, final  
5 straw for me was I had not been given any equity to  
6 run the company at repeated requests. And this same  
7 thing precipitated on my exit is, you know, Peter  
8 came in and proceeded to borrow \$20 million from  
9 Blackstone at an enormous interest rate, which I  
10 thought was a catastrophic decision for the company.

11 We were leveraged off the charts. We were  
12 paying enough interest to key and critical parties,  
13 that being Insight and Blackstone, is where the cash  
14 was going in my opinion. And, you know, he came in  
15 and threw his finger in the air and said I'm going  
16 to get 20 million to clean all this up. And we paid  
17 an enormous rate. I thought it was another bad  
18 decision and I didn't support it. And I didn't  
19 support with Blackstone who I thought had taken  
20 advantage of the company.

21 And so, you know, it was a series of  
22 events that I couldn't support. And so, you know,  
23 I'm a heart guy and the heart wasn't there and I  
24 tried my best to leave with grace and dignity and I  
25 think I can prove readily I don't know what the

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1       number is, ten or 20 million on that. And I knew I  
2       was leaving it. But I have no desire to go back in  
3       the air filter. And I have every desire, as I do  
4       today, to see the company be successful.

5           Q. And you testified that this was completely  
6       your decision?

7           A. Absolutely. Yeah, they -- they put a full  
8       amount of pressure on me, Ken, to stay.

9           Q. They wanted you to remain as the managing  
10      director?

11          A. Absolutely. Yeah, they had fears on  
12      multiple fronts but, you know, Home Depot, you know,  
13      had told them point blank that if I exited, it was  
14      going to, you know -- and so they were aware of  
15      that. What I did was said guys, I will help you.  
16      So, I continued to work with Home Depot. Said guys,  
17      these guys are going to do great. I'm here, if they  
18      need me, I'm there. And so, you know, I almost gave  
19      the pretense that I was right there with them to  
20      help them.

21                 And I know I think I went twice on my own  
22      to Home Depot. I wasn't employed or anything,  
23      wasn't getting a check or anything. I'd just go up  
24      there and see them and they were thankful for that.  
25      I talked to the vendor base because the vendor base

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1 had a lot of angst.

2 Q. And these -- this visit to Home Depot and  
3 the discussions with the vendor base, that was all  
4 after --

5 A. Yes, sir --

6 Q. -- this equity buy-out?

7 A. Yeah, I wasn't an employee, I didn't get  
8 reimbursed. I went up there and benefit, you know,  
9 the company. And I mean, you know, it was a pretty  
10 tough deal for me. I mean, you know, I'm telling  
11 you I had personal attacks and internal attacks and  
12 I went and rose above that. And -- and but my  
13 desire and intent was to see the company be  
14 successful. And by the way, I mean Insight knew I  
15 was pretty hard on Peter. And by the way, Victor  
16 and Brad both said one of the worst decisions we  
17 made -- you know.

18 So, at that point they were -- they  
19 were -- the conversation when I exited was we're  
20 going get out in the next 12 months. And I said  
21 guys, you need to exit and this is why you need to  
22 exit, right? And I also -- and I understand that  
23 space, but I also said make sure that when you exit,  
24 because you're going to make a return, I mean this  
25 thing was singing, be up front so the next guy knows

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1 exactly what he's getting into so it's a fair  
2 deal -- I'm worried about my employees, right?

3 You know, I've had employees call me  
4 crying. I've had spouses call me crying. So, you  
5 know, I said let's keep this thing going, you guys  
6 make a return on it. But, you know, that was the  
7 goal and I said I'll help you every step of the way,  
8 right? And I had given up everything at that point.  
9 And my goal was just to help them. Yeah.

10 Q. And I want to focus -- and all this stuff  
11 you're talking about in terms of the request for you  
12 to buy back the company, the request for you sign --  
13 co-sign on a loan, that all occurred in the week  
14 prior to the 20th?

15 A. It was -- I don't recall dates but it was  
16 pretty much. It was just almost like a wave. And,  
17 you know, I continued to say guys, this doesn't  
18 work. I was watching my company get grossly  
19 leveraged. I also watched Peter and Insight bring  
20 in a whole new team of guys with zero experience, my  
21 guys on this side of the table.

22 So, it was a culmination of events. and I  
23 really got to the point that I thought it was the  
24 very best thing for the corporation for me to exit  
25 and try to pull it together. In fact, I told Brad I

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1       said Brad, the only way this thing has any shot for  
2       you -- and I said, I'm going to help you. I never  
3       left them.

4             Q.    You could have stayed on the Board.

5             A.    Absolutely I could have. And -- and look,  
6       you know, I think they'll tell you that they would  
7       have done anything I offered them to do. I mean,  
8       you know, those guys were gratuitous in everything  
9       they were trying to do. I will also tell you  
10      Insight fully understood (sic) the dynamics that  
11      they had created. I think they'll tell you they  
12      made a massive mistake in bringing Peter in. I  
13      think they'll tell you they made a massive mistake  
14      in lining up that side of the table against my side  
15      of the table.

16                So, you know, and they did not -- they  
17      didn't try to run from that. I mean we had  
18      conversations that, you know, and they needed --  
19      they felt like they needed me to exit. I think, you  
20      know, it -- my actions proved out to be the best  
21      thing. There was some -- some chaos there but I  
22      never left them. I mean employees knew I was there.  
23      Everybody said, he's there, I was like a comfort  
24      factor, if you will, for employees, customers, and  
25      vendors.

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1 Q. Let me -- I think you said something that  
2 confused me a little bit.

3 A. Okay.

4 Q. Did they ask you to step down as Managing  
5 Director?

6 A. No.

7 Q. Okay.

8 A. No.

9 Q. To make sure. They didn't ask you to step  
10 down from the Board?

11 A. No, uh-uh.

12 Q. So, basically the only thing I've heard  
13 you say so far that you didn't get out of this  
14 agreement is that you didn't get as much for your  
15 stock as you would have liked to have.

16 A. Yeah, I mean I knew what the company was  
17 worth. I grew it 100 million. I mean I thought  
18 that was fair, right? You know, look, on the long  
19 term incentive compensation plan, Ken, I wanted that  
20 money to go to my employees. I voluntarily gave  
21 that up. These are people that have been with me a  
22 long time that are -- that are -- these are mean  
23 income people. I made a specific request to Brad  
24 User and Victor Vescovo that that LTIC went back to  
25 my employees in entirety. I also knew what the

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1 value was, right?

2 And so, I did want to keep my \$660,000  
3 because I thought that was fair. I mean it's money  
4 that I left and the growth of the company was on my  
5 back. And they -- they wanted me to completely exit  
6 the ownership structure. I personally think Brad  
7 Coleman was in that conversation. I can't prove  
8 that but there was still angst there.

9 And, you know, I think it was probably a  
10 Wall Street guy against Harry, right. And I didn't  
11 like mezzanine, I didn't like high interest, I  
12 didn't like the fact I couldn't get employees  
13 raises. I mean so, you know, that was the piece  
14 that I wanted because I knew it was a gain that I  
15 deserved that. And but, that's okay. I mean I left  
16 that day, and I think I was at Home Depot the next  
17 week as I recall as a non-paid employee.

18 Q. And were saying positive things about the  
19 company?

20 A. Absolutely, yeah. I mean look, Flanders  
21 is a great corporation. I'm not saying that because  
22 I was integral in building it. It's people place  
23 things provide a needed benefit. I am a little bit  
24 keen in the fact of how many jobs we created in  
25 North Carolina including this asset. So, you know,

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1 we took a tier one county where it hadn't had any  
2 jobs created in 15 or 20 years. We brought 150 jobs  
3 to the county.

4 So, that was a big deal to me. It's also  
5 the reason I moved the floor to office in North  
6 Carolina because I wanted to created jobs in this  
7 state. And so, I wanted -- I had nothing but desire  
8 for the company to be successful, and again, will  
9 tell you about if I'm going in the air filtration  
10 business or not, my goal -- my preference would be  
11 for Flanders to go on do great things. Customers be  
12 happy, vendors be happy, my employees be happy.

13 Now, my entire executive team's gone now,  
14 right? So, you know, and there's pieces of the  
15 company being torn apart. Some of that's going to  
16 happen and transactions. But it's my opinion that  
17 the overall atmosphere is pretty bad. By the way, I  
18 think they can fix it. I really do. I think it's  
19 very fixable. I think the numbers, if you pull  
20 them, from what Daikin pro formaed on what this  
21 thing was going to do to when they bought it to what  
22 it's pro formaing for today will prove everything I  
23 just said.

24 I think if you look at turnover to prove  
25 everything I said. I think if you look at the

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1 factual datas of what they actually got today versus  
2 what they thought they bought, I think every I said  
3 will be factual. And everything I said to, Ken,  
4 Phil Whitaker, I think will be factual - turnover,  
5 morale, degradation in EBITDA, so.

6 Q. Okay. When you say everything you said to  
7 Phil Whitaker you think will turn out to be factual,  
8 are you referring to the email --

9 A. Yes, sir.

10 Q. -- that you sent to Phil Whitaker?

11 A. That's correct, yeah.

12 Q. And we'll talk about those emails in just  
13 a moment. Now, in regard to this equity buy-out  
14 they agreed to pay you the full amount of the March  
15 Board of Directors amount?

16 A. I don't recall. Yeah, that would be  
17 correct.

18 Q. And that's -- they didn't have to do that,  
19 did they?

20 A. I don't really recall.

21 Q. And they didn't have to actually redeem  
22 your shares -- I mean because you actually didn't  
23 want them redeemed.

24 A. I sure didn't. I knew what it was worth,  
25 right? I mean, you know, I watched the company. I

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1       knew the value and by the way, I knew the space was  
2       really hot. So, I mean I thought it would sell for  
3       ten times. I had that conversation with Brad.

4               And we actually had it pro formaed out for 45  
5       million that we thought we could do. So, you know,  
6       I knew what my shares were. And but, you know, I  
7       acquiesced to, you know, on that one.

8               Q.     And they gave you a release of any claims  
9       that they could potentially have against you as part  
10      of this deal; is that correct?

11              A.     Yeah, and vice-versa.

12              Q.     And vice-versa.

13              A.     Yeah, I need to send one text real quick.

14              MR. GRAY:       Let's go off the record.

15              (Off the record from 1:11 p.m. until 1:25 p.m.)

16              BY MR. GRAY:

17              Q.     In the Buy-Out Agreement it also talks  
18      about that nothing in this document reduces or  
19      eliminates your promises or obligations regarding  
20      non-competition or non-solicitation and other  
21      related provisions in your prior agreements, is that  
22      correct?

23              A.     That's correct.

24              Q.     And also as part of the consideration of  
25      this document did Flanders agree to repay the

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1 principal that was under that promissory noted dated  
2 March 31, 2015 made by Flanders Solution in favor of  
3 Pronamics and pay it off basically a year early?

4 A. I don't recall. I do recall I owner  
5 financed it and I was fine with that. So, I was not  
6 worried about that in any way, shape, form, or  
7 fashion because the reason I had no fear is because  
8 I knew what the plant and equipment were worth. So,  
9 I didn't have any risk. So, I didn't care if they  
10 paid if off or not. If they'd defaulted I'd been  
11 happy to took the plant back because I knew what it  
12 was worth.

13 But I also knew doing the right thing was  
14 to give them the asset. So, you know, I was fine  
15 with -- with the -- with the repayment note. And I  
16 don't remember the specifics of it but I think they  
17 just paid me off. But I think as part of the --  
18 part of, you know -- I'm just cleaning up.

19 MR. CEGLOWSKI: You've got to stay near the  
20 microphone or it's not going to pick you up.

21 THE WITNESS: Oh.

22 BY MR. GRAY:

23 Q. But that's something that the company did  
24 not have to do. They did not have to pay you in an  
25 accelerated manner.

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1           A.    I didn't care if they did or didn't.  I  
2    mean, you know, from an asset standpoint the asset  
3    was worth a lot more than the Note.  So, they just  
4    made that decision.

5           Q.    But, Mr. Smith, the question is they  
6    didn't have to do it?

7           A.    No, not at all.

8           Q.    Correct?

9           A.    I would preferred they not.

10          Q.    This document also contains restrictive  
11    covenants, are you aware of that?

12          A.    I am

13          Q.    And were you aware of it at the time you  
14    signed the document?

15          A.    I was.

16          Q.    Did you have any problem with those  
17    restrictive covenants?

18          A.    The conversation I had in specificity with  
19    Brad, and I'm not sure Victor but I think so and  
20    certainly Peter, was that as long as I was treated  
21    with respect and dignity and the company was  
22    performing well, I never had any intent, desire,  
23    intention to go back in the air filtration business.  
24    That is the same premise I am today.

25                I do remember having conversations where I

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1 told Brad North Carolina doesn't even recognize five  
2 years, Brad. And so, for me my desire to be here  
3 today was based on what I think was a preeminent  
4 attack on myself and my guys. And I think actions  
5 and comments prove that, and what I contest is a  
6 significant degradation of the company.

7 I have no desire to go back in the air  
8 filtration business. It's not something that I want  
9 to do and prefer not to. So, you know, it's my hope  
10 is that the company can gain traction, move forward,  
11 and thus my email to you is I'm willing to help for  
12 free, I think I can bring you significant advice to  
13 help get the company back on -- on traction.

14 I also think that the employees,  
15 customers, and vendors will say okay, he's helping  
16 and it would help them a lot. So, I've offered that  
17 for free. And I've also offered to mitigate my non-  
18 compete, as you know. I mean I would -- I would say  
19 stop this, I won't compete you, just let me help you  
20 get back going and I got to the house. So, you  
21 know, as I executed all this -- well, I never  
22 intended to go back in the air filtration business.

23 Q. Now, you just said something about you've  
24 offered to mitigate the non-compete. What do you  
25 mean by that?

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1           A.    That is a email that I sent you where I  
2    said I'm willing to stop -- I don't remember the  
3    exact words -- stop the non-compete, you know, and  
4    let the Board know I'm willing to help them. I want  
5    the company to get back on track. But I actually --  
6    the email I think I sent was I would stop the  
7    process, not try to move back in air filtration and  
8    my number one goal was to see the company move  
9    forward.

10                I think I said that a couple weeks ago.  
11    And that, you know, that was a legitimate offer at  
12    no charge, you know, to help them get back on track.  
13    I mean they've chosen obviously not to respond to  
14    that. I respect that. But my -- my gesture there  
15    was very genuine in the fact that if they could get  
16    on track and move forward, I've got no desire to go  
17    back in the air filtration business, Ken, in any  
18    way, shape, form, or fashion.

19                I'm 47, I've been there, I've done it,  
20    I've checked the box, I got enough money in life.  
21    You know, I'm concerned on multiple fronts;  
22    employees that gave their heart and soul to me that  
23    are losing their jobs. I think facts will show  
24    that. Jobs moving out of North Carolina, I think  
25    facts will show that. I think degradation and

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1 financial performance of the company, I think facts  
2 will show that. Concern in the customer and vendor  
3 base who put a lot of trust in me.

4 So, those are my concerns. And, you know,  
5 I've offered to help. That email was a legitimate  
6 attempt to say hey, we want to stop all this and  
7 help you for free and go back to the house. So, I  
8 offered to stop this and help them. That was, you  
9 know, I want to see the company be successful. And  
10 I'm willing to stop this process today, finish  
11 paying Kevin, and give them free advice to help them  
12 move that asset forward, which by the way, I can.

13 I can give them significant advice on the  
14 model from distribution to the reg. an help them  
15 with the customer base keeping them intact, there's  
16 a comfort level there. Willing to do it for free.  
17 So, I've offered to stop, cease, and desist. I have  
18 no desire to go back in the air filtration business.  
19 You know, was I attacked and defamed? I know I was.  
20 Was action taken against companies I owned? I know  
21 it was. I don't understand it, I didn't understand  
22 it, and I don't understand it today.

23 I'm willing to move past all that and  
24 really try to do the right thing and I would help  
25 them for free. I would go see customers for them

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1 free today. I would talk to vendors for free today.  
2 I would be a free advisor to ensure that Daikin  
3 investment is intact and the company moves forward.

4 There's nobody in the United States that  
5 knows the space better than I do and there's nobody  
6 that knows the customers, vendors, and employees  
7 like I do. That is my number one goal is to see the  
8 company move forward. Facts and data will show that  
9 it is not. And so, you know, today if I left the  
10 building, Ken, and I saw a turn, customer say okay,  
11 things are coming together, vendors say we're  
12 getting comfortable, look, I -- I don't golf but I  
13 can go to the house.

14 I don't -- what -- I don't care to go back  
15 in this space. You know, to some degree, you know,  
16 my initial thoughts was I felt like I was getting  
17 attacked. So, that's just complete transparency, I  
18 didn't understand it and still don't understand it  
19 today. I offered to help, you know, initially. I  
20 sent an email to their CEO before I ever knew Phil  
21 Whitaker and said hey, I'm Harry Smith, I built the  
22 company, call me anytime, glad to help you. You  
23 know, that's document's out there, we can dig it up  
24 I'm sure and I'm sure they got it.

25 But I sent it to the CEO in Japan said

Harry Smith

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1       hey, I'm glad to help you any time, call me, here's  
2       my contact information. My intent was to help the  
3       company. Got attacked, actions will prove that.  
4       And look, today I can put all that behind me. I  
5       promise you I can be humble with Phil Whitaker. You  
6       know, I was disappointed in the approach in  
7       Louisville. I mean I've never seen that at this  
8       level.

9               But I also owed him an apology and I  
10       extended that because what I did on those emails was  
11       wrong. You know, I took a wrong approach because  
12       I -- I took a personal, you know, on the actions he  
13       took against me, and I was getting emotional phone  
14       calls. So, my actions there was not good and that's  
15       why I extended the apology that I sent to you and  
16       said please let him know -- because I owed him an  
17       apology on that. But, you know, today I wish they'd  
18       just get it together, I'd go home. I have no desire  
19       to go back in this business.

20           Q.    So, is the reason that you filed this  
21       Declaratory Judgment Action because you felt like  
22       you were being attacked and you felt like some of  
23       your colleagues that you used to work with were  
24       being attacked?

25           A.    I think it's -- I think -- I think it's

Harry Smith

June 2, 2017

1 multiple, Ken. You know, to begin with, you know, I  
2 mean I was -- that absolutely happened. So, Oak  
3 Ridge immediately lost business. We didn't  
4 understand, right? We tried to reach out, Kevin was  
5 calling, no return phone calls. Employees saying we  
6 can't talk to you and these are people we grew up  
7 with that went with us.

8 So, and then on top of that it was almost  
9 an immediate it seemed like an attack internally  
10 within my group. So, if you were aligned with Harry  
11 Smith and this word was going around pretty  
12 significantly if they know we're talking to you, you  
13 know, we'll lose our job. I mean we -- that's what  
14 the feedback we were getting.

15 And by the way, I think his actions have  
16 shown that. I mean this guy -- the sentiment within  
17 the company now is don't text, call, or email Harry  
18 because they're watching emails, phones, you'll get  
19 fired. I mean that's the -- today if you walk in  
20 there, that's what people will tell you.

21 And so, he's created whether intentionally  
22 or not so I'm not putting this on him but that --  
23 that's the atmosphere that's been created in the  
24 company and it's unfortunate. So, I think it's  
25 that's culmination and also in the fact that, you

Harry Smith

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1 know, I started getting calls from customers,  
2 vendors, and employees -- and of course, these guys  
3 are going to get it together, big company, tons of  
4 security, got great benefits, right? So, you know,  
5 this is going to be good for you, transition.

6 And those -- the emotions escalated. And  
7 then, you know, I started getting feedback on  
8 comments made by Phil Whitaker, you know, that were  
9 not very kind in regards to me and I've never met  
10 him. I've offered to help him. I never took a  
11 single action against Flanders in any way, shape,  
12 form, or fashion. And so, I think it was a  
13 culmination of events where I finally said okay,  
14 that's it, right?

15 And a lot of it was Travis and Kevin who  
16 felt, you know, pretty -- pretty beat up, too. You  
17 know, Travis runs Pitt which I own 50 percent of. I  
18 bought that business for Travis who left with me. I  
19 helped Kevin with Oak Ridge. I gave him Oak Ridge  
20 and I think, I don't know the numbers, but, you  
21 know, I probably had 700, a million bucks in it that  
22 I gave him because he was with me a long time. It  
23 was the right thing to do, he's doing well with it.  
24 Those guys are very happy.

25 So, we had two businesses for Kevin and

Harry Smith

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1       Travis, they were doing them. Pitt's a great  
2       business and we were happy. No intention in going  
3       back in the air filtration business in any way,  
4       shape, form, or fashion. Both of those guys said  
5       we're in the last leg, 47, 57, 67.

6               So, you know, it was a culmination of  
7       events, you know, where we were attacked, actions  
8       taken against us, degradation of performance of the  
9       company. I think all those things will play out.  
10      The email I sent you was a absolute, I will stop  
11      today, I don't want to go back in the space. I  
12      offered to help.

13             I can you tell a magnitude. I can move  
14      the company forward today for free for those guys,  
15      you know, and calm down all their fractions. It's  
16      my opinion if they stay on track today, and I think  
17      this opinion will play out, they're going to lose  
18      partial because those big customers are not going to  
19      single source. They're not comfortable right now.  
20      I'm getting those vibrations through the industry.

21             I think they're going to lose significant  
22      market share. If you lose significant market share,  
23      that model does not survive, people lose their jobs.  
24      And so, you know, I want to see it gel up, you know.  
25      I think I built it so I got some emotion there.

Harry Smith

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1 Some of that's going to change, right, you're going  
2 to move this piece, move that piece, I understand  
3 it.

4 I just want to see the company be  
5 successful. I want to see employees not to have to  
6 worry about their jobs. I want to see people that  
7 are close to me stop being attacked. Charlie  
8 Kwiatkowski case in point. Charlie Kwiatkowski is  
9 one of the most key and critical people in the  
10 company, you know. Charlie will tell you today that  
11 the reason he's exiting is because he feels like he  
12 was attacked because he was still considered aligned  
13 with me.

14 There's other people that told me the same  
15 thing - Miles Bragg's termination. Miles Bragg is a  
16 key and critical player for American Air Filter.  
17 He's now gone to work for Superior Fibers. Miles  
18 will tell you today he said Harry, I lost my job  
19 because of the email search where you and I emailed  
20 back and forth three years ago. He said I'm  
21 convinced of it and everybody -- and that went  
22 through the company as well, you know. And they  
23 told him they fired him over an email I think  
24 between he and I.

25 It was a conversation I had I think is

Harry Smith

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1        what he told me. I feel pretty good about that.  
2        So, then it appears that they were taking action  
3        and -- against people that they even thought were  
4        aligned with me. And so, look, I think it's a he  
5        said/she said, I'm willing to stop today.  
6        Completely stop, help them for free. Don't want  
7        anything out of it and help them with Home Depot,  
8        Grainger, the model, customers, vendors and help him  
9        set it up, explain to him distribution versus that.

10                I'm going to be right, it's going to be  
11        a -- you know, they're just going to collide.  
12        Charlie Kwiatkowski told him you can't run this  
13        model. You can't have 65 and compete with my guys  
14        because Charlie ran the Flanders side. And, you  
15        know, so that -- my ultimate goal is for the company  
16        to be successful. I will quit today. I'll go back  
17        to -- to working out every morning at eight o'clock.  
18        So, I -- I will stop this action today. I am of the  
19        100 percent opinion I am the premier expert in this  
20        space in this country. My history and actions prove  
21        that. I have significant relationships.

22                I've offered to help them for free. I've  
23        apologized for my misdeeds in the emails. I was a  
24        mistake by me, I hate I did it. I just want -- but  
25        if I can't help him, I also feel like that they're

Harry Smith

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1 going -- they're going to continue to denigrate.  
2 And I think if you just looked at the numbers and  
3 said okay, American Air, how is thing doing,  
4 everything I've said is going to be correct.

5 Key of significant turnover, loss of  
6 customers, vendors angst, prices going up on the raw  
7 materials side, collapse in the price on the  
8 customer base side. And part of that is they were  
9 not in retail. So, American Air exited retail in  
10 totality and, you know, I don't think they  
11 understand that space in any way, shape, form, or  
12 fashion on how to negotiate there.

13 I think some free coaching would help. By  
14 the way, Travis sent multiple emails to Phil  
15 Whitaker offering to help for free. No response.  
16 By the way, they were also told they couldn't do  
17 business with Pitt or (Indiscernible) we didn't  
18 understand. But we had employees say hey, man, we  
19 really can't do business with you guys. None of  
20 that understood.

21 Look, I can move past it all today. And  
22 I'm happy to stop today and go sit down, they buy  
23 the coffee, and I'll pick up my own nickel to go see  
24 customers with them. I just want to see the company  
25 be successful. That's my main driving point. If

Harry Smith

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1       they can't do that, I feel some kind of commitment  
2       or responsibility, I think is a fair word, to  
3       people, and especially in eastern North Carolina,  
4       that have been with me that are scared and are  
5       losing their job. I mean, you know, they just moved  
6       research and development from Washington to  
7       Louisville. Those people have been with me a long  
8       time. Some of that's going to happen. But, you  
9       know --

10           Q.     Some of that happened under your  
11       leadership in some of the business that you shut?

12           A.     Absolutely, yeah. But keep in mind, you  
13       know, when I sold those distribution offices, those  
14       guys remained. You know, we bought the machine  
15       shop. Now, we pared down some employment from time  
16       to time but I think if you'll look at our actions  
17       through the years, we built a company.

18                   So, from head count perspective I took it  
19       head count. I don't know if I doubled it but I came  
20       pretty close. So, you know, our goal was always to  
21       lead in that effort and to grow the company. So, we  
22       created a significant amount of jobs. And we also  
23       made a -- we created a significant amount of jobs in  
24       this state that are leaving.

25                   Now, as you and I discussed, that is going

Harry Smith

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1 to be somewhat of what it's going to be. I think  
2 some of it is not healthy and I think I can bear  
3 some conversation into that. And that was my offer  
4 last week. It was a legitimate offer to stop all of  
5 this, I help them for free. Not looking anything  
6 out of it, I got enough zeros.

7 Q. And just to be clear this email that  
8 you're referring to that you sent me a couple weeks  
9 ago, your attorney was also copied on that.

10 A. Yes, sir.

11 Q. You and I have not had any --

12 A. No.

13 Q. -- one on one conversation or  
14 communications, is that correct?

15 A. No, sir, we have not. But I can tell you  
16 it was a legitimate offer. I mean, you know -- and  
17 by the way, I don't recall the premises of it but,  
18 you know, even though I've got a great relationship  
19 with Insight, I gave Insight fair and prudent value  
20 on things they needed to disclose to American Air  
21 that I didn't think I disclosed. And one of them  
22 was the comment that Phil Whitaker made last on the  
23 relationship with key accounts.

24 You know, I said you need to make sure  
25 those guys know what they're getting here. And I

Harry Smith

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1 don't think that was disclosed, right, which is a  
2 key element of the business because it's my opinion  
3 that there was very poor due diligence done. So,  
4 you know, and I think I could prove that as well.

5 So, plant, people, equipment not lining  
6 up, different marketing strategy not lining up,  
7 totally different model not lining up, two different  
8 cultures not lining up. I would have advised them  
9 totally different in the -- in the alignment of it.  
10 If they want to write the check that's fine.

11 But I think they'll also tell you that  
12 today. I think if you saw internal communication  
13 and talk to them, they'll tell you they grossly feel  
14 like they overpaid for it. Now, I will tell you  
15 this, if the company was properly structured today,  
16 I think you'd get the return.

17 You know, this thing can do 55, 65, 70  
18 million in EBITDA properly ran. But you've got to  
19 keep the volume in place, right? And you've got to  
20 figure out how to embody the American Air direct  
21 piece. And so, there needs to be a different  
22 strategy employed because you got two different  
23 cultures, two different families and they're  
24 colliding.

25 It's really not Phil Whitaker's fault, you

Harry Smith

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1 know. If you look at Phil's history and background,  
2 he's just a high purity guy from Europe. It's a  
3 totally different market over here, especially with  
4 wholesalers and retailers. And so, to some degree I  
5 think, in Phil's defense, he probably came in and  
6 said I can do this. I don't fault him for that.  
7 You know, I don't think he had the experience here  
8 because Europe's a different market. And by the  
9 way, Flanders is a different culture in eastern  
10 North Carolina.

11 So, I think he's probably got really quick  
12 and got wide-eyed. I think there's probably a ton  
13 of pressure on him. I know how that feels. But I  
14 would stop today. I got no desire -- I mean I don't  
15 want to leave here today saying I can't wait to get  
16 in the air filter business. That -- that -- I sold  
17 the company because I wanted to get out. And by the  
18 way, the right thing for me to do would not be to  
19 attack that company. Do I think I'm going to win  
20 this? Yeah, I mean I think it's a five-year non-  
21 compete not tied to a business in any way, shape,  
22 form, or fashion, two totally separate transactions.  
23 By the way, I gave up massive consideration.

24 I think that I will be -- you know, but I  
25 mean the court's going to rule what the court's

Harry Smith

June 2, 2017

1 going to rule. I got no desire, you know, If I won  
2 this thing and they called me up and said okay, you  
3 won it, will you help us. I won't start an air  
4 filter company. So, that's it in a nutshell, right?

5 Q. Did anybody advise you other than legal  
6 counsel, and I'm not asking if you if legal counsel  
7 advised you, but did anybody tell you that there  
8 can't be a five-year non-compete in North Carolina  
9 if it's --

10 A. No, not -- not -- not that I recall in any  
11 way, shape, form, or fashion. I think as I was  
12 doing some of that stuff and then you Google it like  
13 your website says North Carolina doesn't recognize a  
14 five-year non-compete. So, you know, I mean a lot  
15 of those websites, you know, that's pretty out  
16 there, right? I mean that's on your website that  
17 North Carolina doesn't recognize a five-year non-  
18 compete.

19 And so, I mean that was pretty much out  
20 there. And we -- I had a discussion with Brad, you  
21 know. He and I had a discussion just like you and I  
22 are talking. But I will tell you, you know, with  
23 all due respect I would have signed a ten-year non-  
24 compete. I had no interest in going back in this  
25 business. I mean I -- when I exited, Ken --

Harry Smith

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1           Q.    You still really don't have an interest in  
2   going into business, do you?

3           A.    I do not, Ken.  I mean look, you know, I  
4   built a company that I'm proud of with a lot of  
5   people that helped me get there that need these  
6   jobs.  I'm very close to the customer base.  These  
7   are people that invested in me because they believed  
8   in where we were going.

9                   I sold the company.  It's not worked out  
10   so well.  I feel responsible for that whether you --  
11   whether everybody likes it or not.  I'm built a  
12   little differently.  I feel a responsibility to  
13   people that are calling me say man, what the heck,  
14   you know, we trusted -- and so, to some degree I  
15   feel pretty responsible for that.

16                  You know, these are people that I sat down  
17   with and said do business with me and this is why.  
18   And they put lock, stock, and barrel with me.  And  
19   so, I would have been ecstatic if this thing would  
20   have exploded and took off.  I mean hallelujah.  By  
21   the way, if he would have tripled it, Christmas  
22   card, right.  I mean look, there's people can run  
23   this thing a lot better than me.  I do believe that  
24   by the way.  I mean I absolutely believe that.

25                  So, I don't -- I have no desire today to

Harry Smith

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1 go out and -- and develop an air filter company to  
2 compete with a company that I built. I will also  
3 tell you today because, you know, in complete  
4 transparency I think if I do that, I will crush them  
5 because I'll build a low overhead disruption model  
6 with less plants, highly automation led by me with  
7 customers, vendors, and employees. I mean what do I  
8 think. I mean, Ken, I think I'll take hundreds of  
9 employees from them. Haven't talked to anybody.

10 I've honored my non-compete through and  
11 through and through and through, right? And so to  
12 that degree, you know, I have a phenomenal  
13 relationship. We talk soccer, we talk golf, we  
14 don't talk -- and part of that is because, you know,  
15 I had a genuine relationship. It wasn't that I was  
16 using a customer, vendor, or employee. I really was  
17 close to these guys.

18 And -- but I've honored my non-compete and  
19 I'd be happy today to -- to cease and desist. I  
20 mean obviously that's not going to happen and that's  
21 okay. But that's -- that's just real straight talk.  
22 I think I've gone above and beyond. I think this  
23 shows I went above and beyond, you know. And, you  
24 know, I'm telling you I was personally attacked, my  
25 companies were personally attacked, my two key guys

Harry Smith

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1       were personally.

2               People within the company that they  
3       thought were aligned with me were personally  
4       attacked. I think we can prove all that. There  
5       were comments made about me and my guys within the  
6       company, you know, right. So, look, I can rise  
7       above all that. I mean I -- here's the one thing  
8       I'll tell you about air filtration as Miles Bragg  
9       said and Miles said, Harry, you were such a force in  
10      this industry I think this guy don't like being in  
11      your shadow because he heard my name all the time.  
12      I get that.

13             What he's going to find out is I'm a  
14      pretty humble guy. I'm not going to tell you I was  
15      always a pretty humble guy. You know, when I first  
16      got in, you know, I was pretty tough. But as I  
17      matured, you know, I also realized what leadership  
18      was more about. I made a lot of mistakes in my  
19      career and there's a lot of them I wish I could  
20      undo.

21             But I got no desire today but to -- my  
22      number one desire would be to help Phil Whitaker  
23      despite his angst toward me to be successful. And I  
24      can -- and I think my actions will prove that. So,  
25      that's it in a nutshell, you know. That's complete

Harry Smith

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1 transparency. I would cease and desist today, Ken.

2 Q. So, you would drop this Declaratory  
3 Judgment Action if Flanders would consult with you  
4 and take your advice?

5 A. I don't know that they've got to take my  
6 advice because I don't think that's fair. I mean I  
7 wouldn't say if you guys don't listen to me, I'm  
8 going to start back because I mean I don't think  
9 that's a fair conversation. What I am telling you  
10 is, you know, is I've offered to help and I think I  
11 can, right? So, if they take a look at the current  
12 performance, I think some of those guys would say  
13 this thing ain't working. And right?

14 And so if everybody will take their egos  
15 out, I'm willing to come back in a very humble  
16 manner and say let me explain to you what you've got  
17 going on in retail, wholesale, ARW, high purity  
18 where you have strategic advantage at, right? You  
19 know, how your model and this model don't line up,  
20 right? Probably the actions that I would take if I  
21 was CEO and then I would try to quantify those  
22 actions on what I think they'll get from a  
23 performance standpoint.

24 So, maybe it would be a quantification on  
25 things that I would do. But there's, you know, I

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1 would take it on a different model and I think you  
2 will see the model they've got now is not working.  
3 So, I think that would prove out. But I'm not say  
4 they've got to take my advice. I think when I gave  
5 them the roadmap, I genuinely believe they'd say  
6 right. The other thing is there is an immediate  
7 calming; customers, vendors, and employees, right.

8 So, they say okay, hold on a second, this  
9 guy's a pro, we trusted him for years. So, you know,  
10 I think they get -- you know, I think it costs them  
11 nothing to -- you know. And so, what you got is a  
12 genuine offer to help. And I also respect the fact  
13 that Phil says I don't need him. That's his choice.  
14 I think if you look at the performance, that's not  
15 true. And that's okay.

16 I mean in my opinion, and this is my  
17 opinion, he's taking his personal ego in front of  
18 the benefit of thousands of employees, customers,  
19 and vendors and I think the performance of the  
20 company shows that, right? I understand it, you  
21 know, and the fact that he's trying to prove he can  
22 do it. In my opinion there's a lot of people  
23 getting hurt. I just want that to stop.

24 Q. I'm going to show you what I've marked as  
25 Exhibit 27 and do you recognize this email?

Harry Smith

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1 (Deposition Exhibit Number 27  
2 was marked for the record.)

3 A. I do not.

4 Q. Does it appear to be from you?

5 A. It does to Brad Buser.

6 Q. And what date does it have?

7 A. March 17th.

8 Q. Okay. And could you read what you said?

9 A. Says thanks, prefer my bonus issue of  
10 payment of balance my severance of 660 glass plant  
11 note. I'm happy to give you a non-compete, work  
12 with you any way that works for both of us. And  
13 that was culminated on a bunch of conversation  
14 between Brad and I going back and forth.

15 Q. Okay. Let me just stop you there.

16 A. Yeah.

17 Q. First of all, did you send this email?

18 A. Yes. Yeah. And, you know, this was Brad  
19 and I, who is a great guy. We were back and forth  
20 on what would work and I said I'm happy to do that.  
21 And I was happy to do that, right. I mean as you  
22 can see, I was exiting without any angst. So, and  
23 look, my intent on exiting was to do it as  
24 copecetically, I don't know the right word, Ken, but  
25 as nice as I could, right?

Harry Smith

June 2, 2017

1 Q. You don't have any remaining interest in  
2 Flanders, do you?

3 A. No, I still buy their products.

4 Q. But no stock?

5 A. No, sir.

6 Q. Do you have any interest in any business  
7 that's doing business with Flanders?

8 A. No. I mean I had 50 percent interest in  
9 Oak Ridge and, you know, again part of the angst and  
10 probably part of the emotion, Ken, was, you know, we  
11 bought all of the machine shop assets and put a  
12 bunch of 20 and 25 years guys to work and, you know,  
13 we had a great agreement with Insight.

14 You know, Kevin was bringing a lot of  
15 value over there with equipment and people and we  
16 were doing a tremendous amount of business with  
17 Insight and Peter -- I mean at transaction time it  
18 literally went well.

19 Q. Let me ask you this. In regard to the  
20 Equity Buy-Out and Board Resignation Agreement who  
21 approached whom about entering into that agreement?  
22 Did you approach somebody or did somebody approach  
23 you?

24 A. When I exited?

25 Q. Who -- well, I'll rephrase.

Harry Smith

June 2, 2017

1 A. Okay.

2 Q. In regard to this Equity Buy-Out and Board  
3 of Directors Resignation Agreement labeled Exhibit  
4 26, are we on the same page?

5 A. Yes.

6 Q. Okay. In regard to that document who is  
7 the one that initiated the discussion about the need  
8 for the document?

9 A. That would be me. Yeah, I -- I contacted  
10 Brad, culminated on the conversations that you and I  
11 had and said Brad, I just can't do it anymore.

12 Q. And just for the record Brad is --

13 A. Brad Buser was the Vice President of  
14 Insight Equity that led the purchase of Flanders  
15 Corporation.

16 Q. And you've indicated that you didn't make  
17 any profit in regard to this Buy-Out Agreement but  
18 that was at your choosing, correct?

19 A. Yes. You know, when I exited, you know,  
20 what I wanted to do was to exit -- in all my actions  
21 I wanted to be in what would be the benefit of  
22 Flanders and its employees. I had built an asset  
23 that, you know, was a cornerstone in raw material  
24 supply for Flanders. And there was a massive amount  
25 of angst in the industry about supply. All of

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1 Flanders' competitors were having supply problems  
2 and we had an asset that took -- would have took  
3 somebody two years to build. So, you know, I wanted  
4 my actions to be congruent with the success of  
5 Flanders corporation.

6 Q. In regard to the Buy-Out Agreement were  
7 you represented by counsel?

8 A. From a negotiation standpoint, no, Ken.  
9 From a legalese and to get all those paragraphs  
10 right Christian helped me. But, you know, nobody  
11 sat down and said do this or do that.

12 Q. So, the answer is yes?

13 A. Yes, right. This -- the glass plant was a  
14 harmonious non-negotiation transaction. My  
15 transaction I did with SWM that Ward and Smith  
16 handled was much more of a negotiation standpoint.  
17 So, I had two different skill sets at the table, all  
18 right. This one was just we're working together,  
19 let's figure out. I was -- you know, and the other  
20 one was much more negotiation.

21 Q. Why do you believe you should not be  
22 subject to the non-compete that's set forth in that  
23 Equity Buy-Out Agreement?

24 A. Well, you know, I mean I think it's a  
25 culmination of everything we talked about. You

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1 know, I mean one, you know, North Carolina law  
2 doesn't recognize a non-compete except, you know  
3 precipitously with the sale of the business it was  
4 two different -- totally different transactions.  
5 Also, I didn't -- I not only not got consideration,  
6 I gave up millions in the benefit of the company.

7 I had no desire to go back in the space.  
8 The reason I am here today is because I think the  
9 fact and data will say that I was attacked, defamed,  
10 actions taken against me, and I got customers,  
11 vendors, and employees with a tremendous amount of  
12 angst that I feel responsible for.

13 I think further my actions say today I  
14 don't want to get back in the air filter business.  
15 So, I'm not sitting here today -- and by the way, I  
16 think I can build a \$200 million company in 24 to 30  
17 months with limited capital. I mean I -- it's a low  
18 bearing entry business.

19 Did I make ten, 12, 15 percent and I think  
20 I got to tear apart what I built doing it, I'm not  
21 just going to go after Flanders, I'd go after the  
22 space. I mean we would go after everybody in air  
23 filtration. So, it wouldn't be a targeted event,  
24 you know.

25 So, but I obviously going to impact that

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1 company so I'm not going to sit here and tell you  
2 I'm not. But, you know, I'm here today based on  
3 actions taken against me and my team and significant  
4 turnover of key and critical people that were with  
5 me that I am convinced beyond a shadow of a doubt  
6 were actions taken against them because they had a  
7 relationship with me.

8 I think Phil Whitaker, in my opinion, has  
9 taken personal actions against me and anybody  
10 associated with me and I do not understand why. I  
11 offered to help. Day one I wrote a letter to their  
12 CEO offering to help. I never, ever, you know,  
13 solicited. I've told customers it's going to be  
14 okay. I've told vendors it's going to be okay.  
15 I've told employees it's going to be okay.

16 And for whatever reason, you know, the guy  
17 and the other guys that could have helped this  
18 company move forward for free, you know, were --  
19 were -- actions taken against them. You know, I was  
20 told on the Oak Ridge piece of business that they  
21 moved business at a higher cost to the company.

22 Sixty days ago, 60 days ago, this is  
23 important, the purchasing agent in Smithfield, North  
24 Carolina, okay, Kevin Boyd at Oak Ridge got a phone  
25 call from another machine shop and said, hey, can

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1       you make these parts for me. Flanders will not buy  
2       from you but if you'll make them I can mark them up  
3       and sell them to them.

4               Kevin called the purchasing agent  
5       Smithfield. She said well, I'm not allowed to buy  
6       from you. He said so you're going to -- I'm going  
7       to make them for this guy and you're going to pay  
8       more and she said, yeah, I can't buy from you.  
9       Kevin's never competed. So, you know, Kevin called  
10      me and said Harry, come on, right? And so, this is  
11      the same guy that two weeks ago that had a  
12      significant failure and they came to him because he  
13      got the company back running. But they came to him  
14      in an emergent situation.

15             This is a guy that gave 30 years of his  
16      life to Flanders Corporation. If you met him today,  
17      he'd have tears in his eyes. He was with me every  
18      step of the way, Ken, and he's not deserved what's  
19      happened to him. He's been attacked and defamed and  
20      maligned that people don't understand including  
21      employees of Flanders Corporation. He could move  
22      the ball forward today at Flanders like you never --  
23      he built and designed every piece of equipment we  
24      got.

25             Travis Stephenson left. We bought him a

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1 business, he's happy, right? He's running a great  
2 very successful business that does really, really  
3 well. And, again, he as well was attacked,  
4 maligned, and defamed. And by the way, we were told  
5 the same thing, we're not allowed to do business  
6 with him. This was out of the gate. Ken, we never  
7 any of us did anything to deserve that kind of  
8 reproach. Now, look, if they can explain it, that's  
9 fine, I'm happy to put all that behind us. I can  
10 move above all that if we're talking about bettering  
11 the company.

12 If we can fix customers, vendors,  
13 employees, hey, I'm willing to stop and say we can  
14 help you. And by the way, those two guys can help  
15 them, right? And by the way, they're willing to  
16 help for free, too. So, if you look at the actions  
17 taken, we had personal attacks and actual actions  
18 taken against companies I owned, we never did  
19 anything.

20 And so, that is why I'm here today, you  
21 know. I'm here today because I finally had enough  
22 of people that were close to me being attacked. And  
23 they have been. And that is the premise all through  
24 the company. And I'm going to tell you something,  
25 Miles Bragg was terminated from an email from me

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1 three or four years ago as a result of my action  
2 here today.

3 That's why I told him no more, I'm not  
4 going to hurt anybody else. We didn't depose  
5 anybody else. I stopped depositions because people  
6 were scared. But Miles Bragg was terminated on an  
7 email because I hired him from American Air when I  
8 was a CEO of Flanders Corporation and they found  
9 that email and they terminated him. There was no  
10 other reason to terminate him.

11 And he called me and said I've lost my job  
12 because they think I'm aligned with you. Hadn't  
13 talked to Miles in years. Years. Charlie  
14 Kwiatkowski lost his job, I believe this, because  
15 they thought he was aligned with me. I mean  
16 everybody was saying that. You know, they -- and  
17 so -- and there's this general fear that if you go  
18 into Flanders today and you said hey, are y'all  
19 allowed to talk to Harry, right. It's crazy.

20 I mean I built a company, I hadn't taken  
21 any action against them, I did all -- everything in  
22 the right manner. I mean I'd love to go walk down  
23 the hallway. I think I could bring a lot of value  
24 in calming people down. For whatever reason, and I  
25 think it's Phil Whitaker, he came in and I guess he

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1       tried to push me down to push himself up, I don't  
2       know. But it made no sense. I was done, I was out.  
3       Look, Ken, I'll help him today. I got no hard  
4       feelings with him in any way, shape, form, or  
5       fashion. I'm going to be bigger than that, right?

6               I sent him some emails that I wish I would  
7       have worded differently. But at this point I have  
8       sent multiple emails to help. We were getting  
9       attacked. I was getting comments he was making.  
10      And so, you know, at that point I said okay, I'm in,  
11      if you want to -- if you want to do it, let's do it,  
12      right?

13             Because I think what he said the other day  
14      was probably the smartest thing he said all day is I  
15      believe I do believe Mr. Smith can build a  
16      \$200,000,000 company. I'm going to ask you  
17      something, Ken, if you believe that and you're  
18      responsible for the corporations and thousands of  
19      people's livelihoods, do you say hey, Harry, will  
20      you work with me when I send an email to offer to  
21      help you?

22             Or do you ignore my email if you genuinely  
23      believe that I can build a \$200 million company,  
24      which is what he said, and that I could hire his  
25      employees, which is what he said, if he genuinely

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1 believes what he said under oath, and I offer to  
2 stop this process and help him for free, do you  
3 think he's operating in the best interest of  
4 American Air? Or either he didn't say what he  
5 meant.

6 Now, I think he believes I can do it. But  
7 what you're seeing because Harry Smith would have  
8 said hey, come on, I need your help. And so, that  
9 again is the deal -- what I'm dealing with from a  
10 persona standpoint. I sent an apology. I offered  
11 to stop this today and go help him for free. And  
12 you know what, if he believes I can build a \$200  
13 million company, he ignored all that. I'm willing  
14 to stop today and come help for free.

15 MR. GRAY: Let's go off the record.

16 (Off the record from 2:01 p.m. until 2:15 p.m.)

17 BY MR. GRAY:

18 Q. Mr. Smith, isn't it true that you're a  
19 sophisticated businessman?

20 A. That's subjective. You know, I think -- I  
21 think through the years, Ken, I've developed a skill  
22 set that's probably pretty unique. You know, I've  
23 been on NASDAQ, I've been in high leverage  
24 situations. I've done start ups. I've built the  
25 company from manufacture, people placing things, IT

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1 platforms, human resources, negotiated benefits,  
2 hired, retained, retracted, developed products.

3 And so, I would tell you that as my career  
4 has progressed and my journey in life I think I have  
5 a skill set that is very unique in all business  
6 applications. And so, I don't deny that in any way,  
7 shape, form, or fashion that I -- without being  
8 egotistically in any way, shape, form, or fashion, I  
9 think I have a unique skill set.

10 Q. And you -- over the years you have  
11 participated in a large number of transactions?

12 A. I've participated in a significant amount  
13 of transactions from, you know, real estate to this  
14 to numerous transactions. That's correct.

15 Q. You've had a lot of dealings with  
16 attorneys as well, is that correct?

17 A. That's correct.

18 Q. I'm showing you what I've marked as  
19 Exhibit 28, do you recognize that document?

20 (Deposition Exhibit Number 28  
21 was marked for the record.)

22 A. I don't recognize it per se but obviously  
23 I sent it. And so, I don't -- I don't -- but I did  
24 send it, you know.

25 Q. And you indicated earlier that you had

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1 sent Phil Whitaker a number of emails?

2 A. Yes, sir.

3 Q. Do you have any idea how many?

4 A. No, I mean, you know, I'm on the hundred  
5 email a day routine and, you know, time, energy, and  
6 effort 30 seconds here, 30 seconds there. Here's  
7 what I can speak to in any of the emails I sent. I  
8 stand firmly behind what I said, and I think that  
9 the dynamics of the company will support that. I  
10 hate the delivery mechanism of that, Ken, and I  
11 think I owe him an apology for that. And I wish I  
12 would have handled that differently. I think it's a  
13 mechanism of frustration that we had all reached out  
14 and that again we all felt attacked and then acted  
15 accordingly. But look, my actions in that are why I  
16 extended an apology. I mean I think I made a  
17 mistake there and my apology was genuine, and I can  
18 only tell you that I regret it.

19 Q. I've just handed you Exhibit Number 29, is  
20 that another one of the emails that you sent Mr.  
21 Whitaker?

22 (Deposition Exhibit Number 29  
23 was marked for the record.)

24 A. Yeah, on the emails, Ken, I can't recall  
25 what I sent and didn't send. I can tell you I sent

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1 him a fair amount of emails and -- and regret the  
2 ones -- I wish I would have continued to put myself  
3 in a position to help him and at some point it's the  
4 reason I'm here today. I felt like I had to turn  
5 the corner.

6 And so, you know, I'm not sure I would  
7 have ever broke through on the help side. Maybe I  
8 would have and that's a regret for me. But I'm here  
9 today because I feel like that the company's getting  
10 to a position that it -- that it needs some form of  
11 help. And I'm saying Phil Whitaker can't be  
12 successful at it. I just think my opinion is that  
13 he needs some help and if they can -- I mean they  
14 ain't got to show me anything but I think the  
15 performance of the company is going to show it as  
16 well.

17 Q. I'm handing you Exhibit 30, is the top  
18 email another email that you sent Mr. Whitaker?

19 (Deposition Exhibit Number 30  
20 was marked for the record.)

21 A. I don't recall any emails at all, Ken. I  
22 really don't. I mean I -- I don't recall any emails  
23 in specificity in any way, shape, form, or fashion  
24 and that's where I'm at at this point. I don't  
25 recall any emails that I sent him. I sent him

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1 numerous emails, but I don't recall, Ken, in any  
2 way, shape, form, or fashion.

3 Q. All right. Well, let me -- is that your  
4 email address, the "from"?

5 A. My email address hs681v@gmail.com. But I  
6 don't recall any emails, Ken. And, you know, from  
7 the email perspective, you know, I'm a little  
8 sensitive to that because, you know, I had an  
9 agreement on my emails. But, you know, what I'll  
10 attest to on emails is I sent emails that I regret.

11 I don't recall any specificity. So, we  
12 can sit here and go through a hundred. I'm not  
13 going to change that testimony in any way, shape,  
14 form, or fashion. I sent emails that I regret. I  
15 don't remember the specificity of them in any way,  
16 shape, form, or fashion.

17 Q. I understand. Do you have an email  
18 account highpurityair9999@aol.com?

19 A. Not -- not that I recall in any way,  
20 shape, form, or fashion. I will tell you again,  
21 Ken, I don't recall specificity on emails. You  
22 know, I regret the emails that I did send him that  
23 I'm aware of I sent them. But I don't recall --

24 Q. Let me ask you do you deny sending this  
25 one?

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1           A.    I don't recall what I sent and didn't  
2    send.

3           Q.    Okay.

4           A.    And I don't.  I mean I sent him emails,  
5    Ken, you know, I don't recall what I send him and  
6    don't send him.  And if I did, I would attest  
7    accordingly, you know.  I don't deny sending him  
8    emails but I don't -- I don't --

9           Q.    I'm showing you Exhibit 31, do you  
10   remember sending Mr. Whitaker that email?

11                       (Deposition Exhibit Number 31  
12                       was marked for the record.)

13          A.    I do not remember any email in  
14   specificity.

15          Q.    Do you deny sending him that email, 31?

16          A.    I -- I have sent him emails that I regret.  
17   I don't remember any specificity in any way, shape,  
18   form, or fashion, Ken.

19          Q.    I'm showing you Exhibit 32, do you  
20   recognize that as an email that you sent Mr.  
21   Whitaker?

22                       (Deposition Exhibit Number 32  
23                       was marked for the record.)

24          A.    I do not recall the email in any way,  
25   shape, form, or fashion.  I sent him emails that I

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1 regret, Ken, and wish I could re-frame it. The  
2 email I absolutely remember is the one I just sent.  
3 I don't remember that either.

4 Q. I just handed you 33 and I think that's  
5 what you just said is you don't remember that one  
6 either?

7 (Deposition Exhibit Number 33  
8 was marked for the record.)

9 A. Well, the one I sent last week I remember.  
10 But, you know, through the period of this year but,  
11 you know, I don't remember any specificity on any  
12 emails I sent him.

13 Q. Here's one in which you in Exhibit 34  
14 you're offering to help, do you remember that one?

15 (Deposition Exhibit Number 34  
16 was marked for the record.)

17 A. I do remember this email, yeah. You know,  
18 it's one I sent recently and it -- it was a genuine  
19 offer to build an accord.

20 Q. Do you remember Exhibit 35?

21 (Deposition Exhibit Number 35  
22 was marked for the record.)

23 A. I do not. Do not remember that. I don't  
24 remember any specificity of what I sent.

25 Q. I'm going to hand -- you don't deny

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1 sending him Exhibit 35?

2 A. I don't deny but I don't recall.

3 Q. Now I'm going to hand you Exhibit 33 (sic)  
4 in which you're claiming that Mr. Whitaker is  
5 continuing to disparage and slander you. Do you  
6 recall sending that one?

7 (Deposition Exhibit Number 36  
8 was marked for the record.)

9 A. I don't recall in specificity --

10 Q. It's 36, I'm sorry.

11 A. I don't recall in specificity on sending  
12 any of the emails. But I do know that I felt like  
13 that that was happening and I was concerned about it  
14 accordingly. And but I don't recall the specificity  
15 of any of the emails.

16 Q. But you don't deny sending --

17 A. I don't --

18 Q. -- Exhibit 36?

19 A. I don't deny it, no. But I don't recall -

20 Q. Now I'm handing you 37, do you deny  
21 sending that one?

22 (Deposition Exhibit Number 37  
23 was marked for the record.)

24 A. I don't recall it, you know. I don't  
25 recall it. I remember feeling, you know, that

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1 Travis and those guys reached out. But I don't  
2 remember any of the emails. I do know this, I  
3 regret some of my tone of some of them. But I don't  
4 remember any specificity of emails in any way,  
5 shape, form, or fashion.

6 Q. Do you remember sending him 38, Exhibit  
7 38, which I'm now handing you?

8 (Deposition Exhibit Number 38  
9 was marked for the record.)

10 A. I don't. I don't remember that. I don't  
11 -- I don't -- I don't remember. I think it's a fair  
12 representation. That's an easy one for me to read.

13 Q. This email that I'm giving you is actually  
14 dated November 15th, 2015 and it's to the folks at  
15 Insight. Do you recall sending that one?

16 (Deposition Exhibit Number 39  
17 was marked for the record.)

18 A. I do not. I don't recall any -- any  
19 specificity on emails. Tons of communication back  
20 and forth, lots of emotion. So, you know, the  
21 context I've given you --

22 MR. CEGLOWSKI: Hold on a second. Will you  
23 reference the exhibit number? I don't think we got  
24 that on the record.

25 BY MR. GRAY:

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1           Q.    The exhibit that I just handed you is 39  
2   and you said you don't have any recollection --

3           A.    No, uh-huh.

4           Q.    -- of the specificity but you don't deny  
5   sending that email?

6           A.    No, not at all.

7           Q.    This is Exhibit 40 that I'm handing you,  
8   do you deny sending that email?

9                       (Deposition Exhibit Number 40  
10                      was marked for the record.)

11          A.    I don't recall any of the emails.  The  
12   framework I've given you to today is the framework  
13   of total transaction this, that, and the other.  I  
14   don't recall any of the context of emails.  The  
15   context I've given you has been total transparency,  
16   total disclosure, and how everything went down.

17          Q.    I'm handing you Exhibit 41, do you deny  
18   sending that email?

19                      (Deposition Exhibit Number 41  
20                      was marked for the record.)

21          A.    I don't recall.

22          Q.    I'm handing you Exhibit 42.  This was  
23   actually the day before Mr. Whitaker's deposition.  
24   Do you recall sending that email?

25                      (Deposition Exhibit Number 42

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1                               was marked for the record.)

2               A.    I do recall sending this email.  I think  
3       this was, you know, I was trying to build an accord.  
4       I don't remember the specificity of what I wrote but  
5       I remember sending him an email.  As I recall, I was  
6       trying to reach out.  And I think the way I wrapped  
7       that up was pretty good - you had time to turn the  
8       outcome on how you viewed the industry to a positive  
9       position and you can drive EBITDA for Daikin.  And  
10      you know.  A that's also why I reached out to try to  
11      have an accord with him, Ken, when he walked in the  
12      room.

13              Q.    Did you -- I'm handing you Exhibit 43, did  
14      you send that to the parent company?

15                               (Deposition Exhibit Number 43  
16                               was marked for the record.)

17              A.    Yes.  I don't remember the details of it  
18      but I also wanted to make sure I was not being  
19      labeled incorrectly.

20              Q.    Just to be clear, and I think you've  
21      covered this but I want to give you this  
22      opportunity; you have not in any way whatsoever  
23      violated any of the non-competes whether or not you  
24      think they're enforceable or not, correct?

25              A.    No.

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1 Q. Is that a correct statement?

2 A. That's correct, yeah. You know, it's kind  
3 of what we talked about before, you know. Actually,  
4 you know, I think if their Board would take a look  
5 around and understand the total dynamics of  
6 everything, they would see I could help them for  
7 free. I don't -- I don't want a job anymore, I just  
8 want to see the company be successful.

9 I think this thing's got off between Phil  
10 and I for whatever reason. I think I made mistakes  
11 in feeding it that I wish I hadn't have done and I  
12 think that was emotions involved. And, you know,  
13 I'll tell you I'd love to see them be successful.

14 You know, I don't by nature want to go  
15 back in the space because I also understand the  
16 time, energy, and effort it takes. And I also feel  
17 like I'm going to be back in the forefront of  
18 customers, vendors, and, you know, I'm 47. And I  
19 also don't want to hurt the company.

20 And so, you know, my number one premise  
21 would be is to see them be successful. And I don't  
22 want to go back in air filtration space. I feel  
23 like right now, you know, I have a responsibility to  
24 customers, vendors, and employees. I also feel like  
25 I was attacked and actions taken against me that

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1       were not fair and congruent.

2               I'm -- I'm willing to rise above all that.  
3       I think I can prove it out pretty quickly and I  
4       think the actions will show it on business stopping  
5       without explanation, raw materials we had and  
6       carried that we ate, so forth and so on. You know,  
7       I've gotten significant comments back from key and  
8       critical people and comments made in staff meetings,  
9       you know, about me.

10              I think people have been terminated as a  
11       result of me. It's the reason I didn't depose  
12       anybody else because I didn't want anybody else to  
13       lose their job. Look, Ken, this is not a thing  
14       where I have any desire to -- here's what I don't  
15       want. I don't want my obviously challenged  
16       relationship with Phil Whitaker, okay, and there's  
17       no doubt it is. And I tried to take that because I  
18       made some mistakes in that and I admit those. I  
19       should have continued to rise above it, I regret it.

20              I don't want my angst with this guy, and  
21       it's one of the reasons I reached out to his  
22       supervision, I don't want my angst with this guy to  
23       hurt the company, right. And so, I want to be  
24       cognitive of that, right? And so, I want to rise  
25       above that. And then also is the reason I

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1       apologized to Phil because I thought I owed him  
2       that. And, you know, so I tried to go back to where  
3       I started this thing is can we help you. And so, I  
4       don't think the company should get hurt because me  
5       and this guy are banging it out. I actually would  
6       like to see this guy be successful.

7               And so, if I can help -- and look, by the  
8       way, if they say here, this is what you're missing  
9       and this is why the people are calling you and, you  
10      know, you're wrong here, I would love to hear that  
11      because I could be. I don't -- I don't think I am  
12      based on what I'm seeing and I'm hearing but I could  
13      be.

14             Some of that stuff is going to be what  
15      it's going to be, right? But, you know, I don't  
16      want to do that. I mean look, I just -- I don't  
17      want to do that. And so, you know, as much as  
18      emotions in this thing for me and by the way, it is,  
19      and I've always said separate your emotions and your  
20      business making skills, I've got some emotional  
21      decisions in this that I regret.

22             You know, in my journey through life I  
23      looked at that said, you know, it was a mistake by  
24      me. I'm willing today to take Phil to McDonalds and  
25      say how can I help you and continue the apology

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1 path. So, you know, because I do. I mean I reacted  
2 I think. But I mean look, I don't -- I don't want  
3 to go in the air filtration business. I feel like  
4 I'm being forced into it. And maybe I'm wrong about  
5 that, right. But I'm not going to leave here today  
6 doing back flips thinking I'm getting back in. As  
7 I've told Kevin all along, right, I've been there.

8 Q. Don't say anything you've told your  
9 attorney.

10 A. Yeah, okay. But I mean, you know, I've  
11 been there. This is full disclosure. I mean  
12 listen, we can do this process, that process, what  
13 I've done today is total transparency, right? And,  
14 you know, I want to see the company be successful.  
15 I want to see it flourish in North Carolina  
16 specifically, I don't deny that.

17 And I'm not crazy about going back in air  
18 filtration. I'm really not. In fact, I don't want  
19 to go back in air filtration. I feel like I'm being  
20 forced back in air filtration.

21 Q. Who's forcing you?

22 A. I feel like I'm -- I have a responsibility  
23 customers, vendors, and employees. You know, I feel  
24 like my two main guys who don't care to go back in  
25 air filtration either have been attacked and harmed

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1 financially. I think they have some emotions on it  
2 on how they feel like they've been treated.

3 I mean two great guys that gave nothing  
4 but time, energy, and effort to the company and  
5 exited with grace, style, and dignity. I mean when  
6 you have an exit like that there's some emotions,  
7 right? But at the end of the day we all -- I took  
8 it up there, we took it up there, we worked through  
9 and, you know, and we ended up all in a good place.

10 And so, you know, for whatever reason this  
11 thing started off on the wrong track and it started  
12 off with actions against us. And what I would have  
13 done is said hey, let me call those guys in so I can  
14 understand everything that happened because I've  
15 been told this, what's your story.

16 Travis, Kevin, and myself would have sat  
17 down with Phil and said hey, whatever we can do to  
18 help you. By the way, you want me to go to Home  
19 Depot with you and introduce those guys, let's go  
20 next week. So, I mean we would have all done that.  
21 That offer's still there, right?

22 I mean, you know, I mean can we build a  
23 machine? Like you've never seen. I mean Kevin, who  
24 owns Oak Ridge, designed every piece of equipment  
25 air filtration, right? He's got the shop to build

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1       it in. We built it low cost, right? He's happy,  
2       Travis is happy, I'm really happy. It's not what I  
3       want to do. So, I'm not -- I don't -- I don't --  
4       that's not what I want to do. And I feel like -- I  
5       feel like I have a responsibility to people that,  
6       you know, did a lot for me.

7           Q.     One thing you mentioned not as a reason is  
8       money. You don't need the money, do you?

9           A.     I don't need the money. You know, and  
10      I'll speak authoritatively on that subject. So,  
11      you're talking about a guy came from nothing, right?  
12      Graduated from East Carolina broke. And, you know,  
13      I've built a significant net worth. Outside of  
14      Flanders as well I've had significant success.

15               And so, you know, I have a fair -- I mean  
16      I would say enormous but a lot of wealth. So, I  
17      have no desire to go back in the -- I don't need any  
18      more, right? I mean I just don't need any more  
19      money. What I do want is my time. And so, you  
20      know, when I speak on that subject, I really wanted  
21      to do civic stuff and take the stuff that I learned  
22      and the mistakes I made in business and in life, and  
23      I've got them, to the civic side of things and  
24      that's what I've done, you know, as you're aware on  
25      the Board of Governors. I've taken that skill set

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1 and by the way I've had some tremendous success for  
2 the system.

3 And so, I enjoy that process. I mean, you  
4 know, pay's not good but I've enjoyed the process.  
5 And, you know, and that's really what I'd like to  
6 do. Do I have some political ambitions? Ken, I do,  
7 and I think I'll have success there, right? I  
8 haven't vetted that out yet but it's part of the  
9 reason I wanted to stay in higher education.

10 So, I've got things that I want to do.  
11 This thing will take three or four years of my life  
12 away from me. So, I don't need any more money. I  
13 really enjoy my time and I want to be able to go  
14 watch ACC soccer, I want to be able to go to  
15 football games. It is -- and by the way, my guys  
16 feel the same way. So, Travis has got a highly  
17 successful business. I own half of it, it does  
18 really well. Kevin now has taken Oak Ridge it's  
19 doing really well. So, I mean you're talking about  
20 guys that own pretty nice businesses, you know, 20  
21 million, 10 million that make nice -- I mean they're  
22 fine. They don't need any more money either.

23 And so we -- those two guys with me made a  
24 massive push and got that thing where it was at.

25 And, you know, we feel like we've been attacked, we

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1       feel like we've been defamed. I think that's true.  
2       We got customers, vendors, and employees calling us.

3               I will repeat to you again I've made  
4       mistakes, I regret them. Phil Whitaker said last  
5       week Mr. Smith can take 200 million hire employees,  
6       people, place, and things. He's correct about that.  
7       I left there, I slept, prayed on it, talked to my  
8       wife about it. I said I'm going to do the right  
9       thing here.

10              I sent him an apology which was  
11       meaningful. I made a mistake, I wanted to correct  
12       it. I furthered that with I'll cease and desist and  
13       come help you for free. If he genuinely believed  
14       and I think he does, then somebody at Daikin's Board  
15       ought to say hold on a second here, if you believe  
16       this guy can build a \$200 million business, he's  
17       offered to help you for free and stop.

18              So, who's at fault here, right? And by  
19       the way, he could have also ,said Harry, I don't  
20       want your help but I'm going to ask you to stop, and  
21       by the way, I owe you an apology, and he does, for  
22       things that I did and actions I've taken against  
23       people, place, and things with you, I would have  
24       accepted his apology, right?

25              If he'd said, Harry, this is what I'm

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1 going to do to fix the company so people quit  
2 calling you, probably could have left there that  
3 day, Ken, and went back to studying budget and  
4 finance for the next Board of Governors meeting.  
5 So, you know, I don't want to hurt this company by  
6 hurting him. Is that -- is that fair? I just want  
7 the company to be successful. I don't -- I don't --  
8 I don't want anybody to say that I've got some  
9 massive pretense to crush Flanders and go in the air  
10 filtration business.

11 I'm here today. I spent a significant  
12 amount of money to validate my name, to validate my  
13 guys' name and to protect people that were very  
14 important to me that I think are being hurt. I  
15 think the performance of the company will prove  
16 that, right? That's all I care about. I -- I --  
17 I -- that's all I care about.

18 I mean, you know, and I'm telling you this  
19 guy did take action against me and my guys. It's  
20 very provable. And there was comments made about  
21 us. It's very provable. The performance of the  
22 company is falling. Jobs are being lost. People  
23 are scared, right, people that were deemed to be  
24 aligned with me have been terminated, let go, or  
25 punished. That's all provable.

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1 I don't understand why but I -- I -- I  
2 want to help. If they don't want my help then and  
3 that's fine, you know, somebody get it on track.  
4 And I'll go back to sending you guys post cards,  
5 right? It's the only reason that I didn't want you  
6 guys not to have this engagement because win, lose,  
7 or draw you should have it.

8 I mean you guys -- I mean so -- because I  
9 mean I think it comes down to case law. So, I'm not  
10 going to hurt anybody. One of the biggest problems  
11 I've had with this thing was people got hurt because  
12 of me. There are people that have lost this job  
13 since I filed this lawsuit a hundred percent because  
14 they will prove -- they were thought to be aligned  
15 with me.

16 There are people that I've known for 20-  
17 plus years, their families, wives, daughters, went  
18 to their kids' graduation, grew up with them, that  
19 are afraid to talk to me today because they think  
20 they'll be fired just for communicating with me,  
21 right? I mean there is a context in the company if  
22 you're aligned with Harry, you get fired. And his  
23 actions prove that. He's fired people because  
24 they're aligned with me.

25 That's why I didn't depose anybody. We

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1 had stuff we could bring the table, Ken, and we  
2 stopped. I had people I could have brought to this  
3 table that would have had significant testimony and  
4 I stopped because I don't want anybody else hurt.

5 MR. GRAY: Do you have any questions?

6 MR. CEGLOWSKI: Are you done?

7 MR. GRAY: For this part.

8 C R O S S E X A M I N A T I O N 2:40 P.M.

9 BY MR. CEGLOWSKI:

10 Q. Mr. Smith, I'm going to pull back up  
11 briefly Exhibit 26, which is the Agreement at issue  
12 in the case, the primary one, the Equity Buy-Out and  
13 Board of Directors Resignation Agreement.

14 A. Uh-huh.

15 Q. I just want to be clear for the record at  
16 some point you were holding or touching this  
17 document and also talking at the sale of the glass  
18 plant and Pronamics.

19 A. Uh-huh.

20 Q. Did that document, Exhibit 26, have any  
21 connection to the sale of Pronamics?

22 A. None whatsoever. Two totally separate  
23 transactions.

24 Q. Did that document have any connection to  
25 the sale of any business?

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1           A.    None whatsoever.  And Insight will testify  
2 accordingly.

3           Q.    Mr. Smith, do I understand your testimony  
4 to be that one of your motivations for pursuing this  
5 lawsuit is to stop people from being hurt,  
6 specifically customers, vendors, and employees of  
7 Flanders Corporation?

8           A.    That's correct.

9           Q.    Is it true that based on the current  
10 dynamic between you and Phil Whitaker and/or you and  
11 Flanders the only way for your stop them getting  
12 hurt is to reenter the air filtration industry?

13               MR. GRAY:       Objection to the form of  
14 these questions.  They're all leading.

15               THE WITNESS:    I believe that -- that is  
16 absolutely correct.  I feel like I'm being forced  
17 back into air filtration to -- on multiple fronts to  
18 vindicate my name in the company, Travis  
19 Stephenson's name in the company, Kevin Boyd's name  
20 in the company, to vindicate personal actions taken  
21 against Oak Ridge and Pitt, which are provable, and  
22 to stop the flow of business as immediate as the  
23 transactions.

24               We can also prove that the decisions made  
25 to move business from Oak Ridge were a financial

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1 detriment to the company and were personal in  
2 nature. I think you will find out that the actions  
3 that Phil Whitaker has taken have been personal in  
4 nature. I also will tell you that -- and I was told  
5 by Insight that there was never a question asked  
6 about my non-compete in any way, shape, form, or  
7 fashion when they bought the company.

8 Nobody asked about it, they never referred  
9 to it. And exactly what Brad Buser told me is  
10 there's some attorney somewhere in a back room that  
11 saw it but your name never came up, you were not an  
12 issue. They bought the company without ever  
13 worrying about you.

14 I can also tell you that I was told by --  
15 by a great source that they had to scramble to find  
16 my non-compete and figure what it was all about. But  
17 the premise of the thing is, you know, I'm here  
18 today to validate myself, Travis, Kevin, and people,  
19 place, and things that helped me be successful that  
20 I think are under attack. And I think people  
21 specifically that it is deemed or aligned with me  
22 that he has taken personal action again. And I  
23 think that's all provable.

24

25 BY MR. CEGLOWSKI:

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1           Q.    Is it important to you to have the  
2           flexibility to reenter the air filtration industry  
3           if you choose to do so?

4           A.    Absolutely, yeah.  I mean I -- you know --  
5           my main premise would be to see the company be  
6           successful and me not enter the air filtration  
7           business.  If the people that -- that know me and  
8           that are perceived to be aligned with me, you know,  
9           are not under threat or fear of intimidation because  
10          of their alignment with me, and they don't have to  
11          worry about coming to work, that the attacks on me  
12          stop and the attacks on people, place, and things  
13          stop then, you know, I have no desire to enter the  
14          air filtration business.

15          Q.    Is it important to you to have guidance  
16          from the court in this case about whether or not the  
17          non-compete is enforceable?

18          A.    Absolutely.

19          Q.    And do you need that clarity so that you  
20          can decide whether or not to reenter the air  
21          filtration business?

22          A.    Absolutely.  I mean, you know, I -- again  
23          last week I think I led in the fact that I issued an  
24          apology.  I think -- I think this whole thing  
25          precipitated on attacks.  I didn't lead that, you

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1 know, I responded to it. Over a long period of time  
2 it continued and it's continued. And so, you know,  
3 my attempt last week was an attempt to peel that  
4 divide, rise above that, issue Phil a personal  
5 apology, and to also give him an opportunity on the  
6 comment on the \$200 million company and hiring  
7 people to offer not to do that. And if he feels  
8 that way, then obviously he feels like I have a  
9 tremendous amount of knowledge that he doesn't have  
10 and the industry doesn't have or I couldn't do that  
11 to bring that knowledge to them free of charge and  
12 they've chosen not to act on that. I'm happy to  
13 help them today.

14 MR. CEGLOWSKI: I don't have any more  
15 questions.

16 R E D I R E C T E X A M I N A T I O N 2:43 p.m.

17 BY MR. GRAY:

18 Q. Mr. Smith, you just said it was important  
19 to you to have flexibility to enter the air  
20 filtration business. Was it important to you when  
21 you signed this Equity Buy-out Agreement on March  
22 20th, 2015?

23 A. No, and, you know, at that time, you know,  
24 what I discussed openly with Insight is treat me  
25 with dignity and respect, treat my guys with dignity

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1 and respect, and, you know, I'm here to help you  
2 forever and they did that.

3 Q. And you also testified that it was  
4 important for you to have the court make a  
5 determination as to the enforceability of the Non-  
6 Compete Agreement and the Equity Buy-Out. Was that  
7 same thing important to you on March 20th, 2015?

8 A. I wasn't under attack, my guys weren't  
9 under attack, and I wasn't getting calls from  
10 customers, vendors, and employees, people had not  
11 lost their job as a result of alignment with me.  
12 So, that was not an issue. I will testify again I  
13 have no desire to go back in the air filtration  
14 business in in any way, shape, form, or fashion.

15 Q. So, the answer is no, it was not important  
16 at that time?

17 A. Absolutely not. I will also say as far as  
18 an air filtration start up I mean, you know, I'm  
19 three years now so I got two years left, 24 months  
20 and now really isn't going to make any difference if  
21 they don't change the model. But what I will you is  
22 no matter what the court decides if something  
23 doesn't change course, Kevin and Travis are going to  
24 reenter the space. Their non-competes are clear and  
25 they going to have the same kind of impact. I don't

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1 know the magnitude of the impact, but I think those  
2 guys will have a significant impact whether I'm  
3 involved or not.

4 So, you know, Travis and Kevin are  
5 completely cleared and I think you'll see unless  
6 something changes, those guys will enter the space  
7 and -- on their own without me in any way, shape,  
8 form, or fashion. That's I think -- I think that's  
9 what will happen if something doesn't change course.

10 MR. GRAY: Anything else?

11 MR. CEGLOWSKI: No.

12 MR. GRAY: Let's go off the record.

13 (Off the record 2:46 p.m. until 2:48 p.m.)

14 MR. GRAY: I have no further questions  
15 that are not going to be subject to the protective  
16 order that we're getting ready to stipulate to. Do  
17 you have any additional questions, Kevin?

18 MR. CEGLOWSKI: I do not.

19 MR. GRAY: Okay. At this time we're  
20 going to go through a few emails and there is a  
21 protective order that's been entered by the court to  
22 keep these documents confidential and just not to be  
23 distributed beyond the parties. And so, this next  
24 section -- the remainder of the deposition will be  
25 subject to that protective order.

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1        (The following pages numbered 251 - 257 were  
2        designated confidential by agreement of counsel.)  
3        (These pages were redacted and deleted from this  
4        transcript to be filed as CONFIDENTIAL/)

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1       **(End of confidential portion of transcript.)**

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1                   MR. GRAY:        I have no further  
2       questions.

3                   MR. CEGLOWSKI: No more questions.

4                               (WHEREUPON, THE DEPOSITION TESTIMONY  
5       OF  
      HARRY L. SMITH, JR., CONCLUDED AT 2:58 p.m.)

Harry Smith

June 2, 2017

STATE OF NORTH CAROLINA

COUNTY OF NEW HANOVER

C E R T I F I C A T E

I, JENNIFER PATTERSON, CVR-M, COURT  
REPORTER-NOTARY PUBLIC, DO HEREBY CERTIFY THAT HARRY  
L. SMITH, JR. PRESENTED A NORTH CAROLINA DRIVER'S  
LICENSE AS FORM OF IDENTIFICATION, DULY SWORN OR  
AFFIRMED BY ME PRIOR TO THE TAKING OF THE FOREGOING  
DEPOSITION; AND THAT SAID DEPOSITION WAS TAKEN BY ME  
AND TRANSCRIBED UNDER MY DIRECTION; AND THAT THE  
FOREGOING 258 PAGES CONSTITUTE A TRUE AND CORRECT  
TRANSCRIPT OF THE TESTIMONY OF THE WITNESS.

I DO FURTHER CERTIFY THAT I AM NOT COUNSEL  
FOR, OR IN THE EMPLOYMENT OF EITHER OF THE PARTIES  
TO THIS ACTION, NOR AM I INTERESTED IN THE RESULTS  
OF THIS ACTION.

IN WITNESS WHEREOF, I HAVE HEREUNTO SET MY  
HAND THIS 23RD DAY OF JUNE, 2017.

---

JENNIFER PATTERSON, CVR-M  
CERTIFIED FREELANCE COURT REPORTER  
NOTARY # 19940450121

Harry Smith

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S I G N A T U R E

I have read the foregoing 259 pages which contain a correct transcript of the answers made by me to the questions herein recorded. My signature is subject to corrections on the attached errata sheet, if any.

\_\_\_\_\_  
(Signature of Harry L. Smith, Jr.)

State of \_\_\_\_\_  
County of \_\_\_\_\_

I certify that the following person personally appeared before me this day and I have personal knowledge of the identity of the principal or have seen satisfactory evidence of the principal's identity in the form of a \_\_\_\_\_ or a credible witness has sworn to the identity of the principal, acknowledging to me that he or she voluntarily signed the foregoing document for the purpose stated herein and in the capacity indicated: \_\_\_\_\_.

(Name of Principal)

Date \_\_\_\_\_  
(Official signature of Notary)

(Official Seal) \_\_\_\_\_,  
Notary Public  
(Notary's printed or typed name)

My commission expires \_\_\_\_\_.

\*\*\*\*\*

I, Jennifer Patterson, CVR-M the person before whom the foregoing deposition was taken, certify that the foregoing transcript was delivered to the witness on or about the 26th day of June 2017 and that as of this date, \_\_\_\_\_, I have not received the executed signature page.

Therefore, more than 30 days having elapsed since receipt of the transcript by the witness, the sealed original transcript was filed with attorney for \_\_\_\_\_ on \_\_\_\_\_ by means of \_\_\_\_\_, in accordance with Rule 30(e) of the \_\_\_\_\_ Rules of Civil Procedure.

Date \_\_\_\_\_ Jennifer Patterson, CVR-M  
Certified Freelance Court Reporter

Harry Smith

June 2, 2017